HIGHCROFT INVESTMENTS PLC

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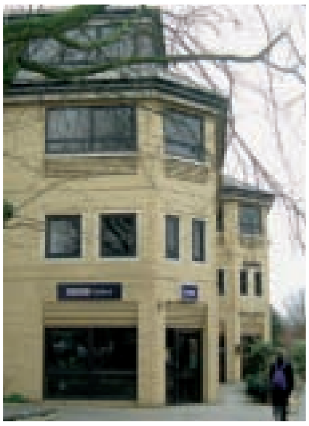
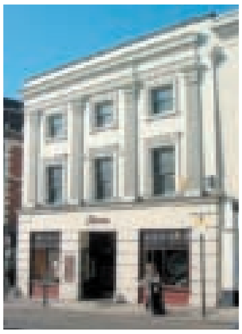
2006





REPORT AND FINANCIAL STATEMENTS 31 December 2006

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Contents

	Page
Chairman's introduction	1
Corporate governance	2
Directors and advisers	3
Report of the directors	6
Directors' remuneration report	13
Report of the independent auditor	15
Consolidated income statement	17
Consolidated balance sheet	18
Consolidated statement of cash flows	19
Notes to the financial statements	20
Unaudited supplementary information: Largest investments of the group	29
Five year summary	30
Company statutory financial statements (prepared under UK GAAP)	31
Notice of annual general meeting	38

KEY HIGHLIGHTS

- Gross property income up 6.3% to £2,038,000
- Profit for the year on revenue activities up 9.8% to £1,500,000
- Basic earnings per share on all activities down 17.1% to 84.8p
- Adjusted earnings per share (on revenue activities) up 9.8% to 29.0p
- Net asset value per share up 9.5% to 830p
- Total dividends up 8.3% to 13.7p per share
- Final dividend of 9.0p payable on 6 June 2007

Dear Shareholder

I am pleased to introduce for my first time as chairman, the report and financial statements for the year ended 31 December 2006, reflecting as they do another good year. I am sure that shareholders would want to join me in wishing my predecessor, Gavin Kingerlee, a very long and happy retirement and sending our thanks for his wise counsel and stewardship as both a director and latterly as chairman.

The report includes changes in both presentation and information in response to new legal and good practice guidelines. The introduction of these changes may cause some confusion – in which case, I hope the "Key highlights" summary above will give a sense of what progress was achieved in 2006.

I would draw shareholders' attention to two matters:

- Our aim is to invest for the medium term to give shareholders the benefit of steadily rising profits and dividends. We believe our property portfolio to be well structured and of quality and think that a more hesitant commercial property market in general may bring opportunities. The equity component of our investments has performed well but in the current year progress has been subject to the volatility evident in the market as a whole.

- We are researching the practical steps needed to switch our status to a Real Estate Investment Trust (REIT) which would give shareholders much enhanced dividends and asset value. We hope to be able to submit proposals to an EGM later in the year.

We look forward to seeing as many shareholders as possible at the Annual General Meeting on Wednesday 23 May 2007 which will provide an opportunity for an exchange of views and an update on the issue of REITs.

John Hewitt
Chairman 21 March 2007

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) 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.

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 2006 the number of board and committee meetings with individual attendances was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	6	3	1	0
Attendance:				
J Hewitt	6/6	3/3	1/1	0
R N Stansfield	5/6	3/3	1/1	0
C J Clark	6/6	3/3	1/1	0
G J Kingerlee	5/5	2/2	1/1	0
J C Kingerlee	6/6	Not applicable	Not applicable	Not applicable
D Bowman	6/6	3/3 (part)	Not applicable	Not applicable
D H Kingerlee	6/6	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.

During much of 2006 there were seven directors because the appointment of Christopher Clark overlapped with the retirement of Gavin Kingerlee. The board now has six directors again 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 11.

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 external auditors 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.

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 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 2006 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 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.

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 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

21 March 2007

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 Churchward House Kemble Drive Swindon SN2 2TA
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 seventy-ninth 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 directors are pleased with the exceptional performance in many aspects of the group's activities. The property and equity portfolios have generated sufficient income to be able to announce a dividend increase in respect of 2006, from 12.65p to 13.70p, a rise of 8.3%.

The net asset value per share increased 9.5% to 830p from 758p and the dividends paid to shareholders during 2006 were as follows:

	2006 £'000	2005 £'000
2005 Final: 8.30p per ordinary share (2004 7.65p)	**429**	395
2006 Interim: 4.70p per ordinary share (2005 4.35p)	**243**	225
	672	620

The board is proposing a final dividend on the ordinary shares in respect of 2006 of 9.0p (2005 8.3p) per share, making a total dividend of 13.7p (2005 12.65p).

Business review

Financial performance – revenue activities

Gross income for the year ended 31 December 2006 was £2,527,000 – a rise of 12.0% on last year (2005 £2,256,000).

Analysis of gross income	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Commercial property income	**1,933**	1,833	1,586	1,484	1,422
Residential property income	**105**	84	81	85	95
Gross income from property	**2,038**	1,917	1,667	1,569	1,517
Income from equity investments	**489**	339	285	315	333
Total income	**2,527**	2,256	1,952	1,884	1,850

Commercial property income rose with the expansion of the portfolio, partly funded by medium term loans, rising by 5.5% over 2005. Residential property income rose, partly due to a premium received for a lease extension and partly due to the back rent on a caretaker's flat the receipt of which had previously been in doubt.

Underlying income from equity investments saw a continuation of a rising trend since 2005 and this was boosted in part by special dividends on certain holdings.

Analysis of administrative and net finance expenses	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Directors' remuneration	**141**	112	110	114	124
Auditor's remuneration including other services	**32**	36	20	20	25
Other expenses	**74**	74	75	75	72
Administrative expenses	**247**	222	205	209	221
Net finance expenses/(income)	**188**	84	(4)	(15)	(18)
Total expenses	**435**	306	201	194	203

For the first time since 2002, non-executive fees were reviewed and this, together with 2006 including a period of overlap prior to the retirement of one director, caused a relatively high increase in total directors' remuneration. Additional work in respect of the implementation of IFRS also affected total directors' remuneration.

The implementation of IFRS and International Auditing Standards caused a relatively significant increase in the cost of services from our auditor in 2005. While this decreased in 2006, the underlying cost of compliance has nevertheless increased.

The implementation in 2004 of a policy to expand the commercial property portfolio with medium term debt generates the increase in net finance expenses and this is more than compensated by the increase in commercial property income.

Summary of profit before tax and income tax expense on revenue activities	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Profit before tax	**1,956**	1,825	1,624	1,549	1,491
Income tax expense	**456**	459	413	409	417
Distributable profit	**1,500**	1,366	1,211	1,140	1,074

Financial performance – capital activities

We have again seen substantial revaluation net gains in the property and equity portfolios.

Analysis of gains and losses on property – capital activities	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Realised gains on investment property	**320**	44	9	119	257
Realised losses on investment property	**(33)**	(36)	–	(37)	(14)
	287	8	9	82	243
Revaluation gains on investment property	**2,732**	3,464	1,042	1,577	509
Revaluation losses on investment property	**(398)**	(65)	(139)	(257)	(348)
	2,334	3,399	903	1,320	161

Analysis of gains and losses on equities – capital activities	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Realised gains on equity investments	**73**	77	89	142	86
Realised losses on equity investments	**(159)**	(45)	(51)	(66)	(176)
	(86)	32	38	76	(90)
Revaluation gains on equity investments	**1,382**	1,671	953	1,048	40
Revaluation losses on equity investments	**(150)**	(97)	(88)	(52)	(1,960)
	1,232	1,574	865	996	(1,920)

Summary of investment activities	**2006 £'000**	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Purchase of property	**7,437**	–	4,089	1,596	1,504
Purchase of equity investments	**1,029**	958	1,016	624	935
	8,466	958	5,105	2,220	2,439

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 2006, including relevant key performance indicators, is as follows:

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

Allocation of total investments	**2006 %**	2005 %	2004 %	2003 %	2002 %
Commercial property	**73**	70	70	67	66
Residential property	**5**	6	8	9	9
Equity investments	**22**	24	22	24	25
Total	**100**	100	100	100	100

During the year we completed the purchases of two properties, and both are included in the largest property holding schedule on page 29.

In February 2006 we purchased a terrace of three retail units in Staines at a cost including stamp duty and fees of £2.99m. The property benefits from planning and other consents to extend upwards to create nine new apartments. Initially the intention had been to develop these new apartments ourselves. However strong interest from developers specialising in such schemes, along with favourable ground rent terms which will add further value encouraged the board simply to dispose of the development site by way of a long lease, and this transaction will be concluded in 2007.

In October 2006 the company purchased a five storey office building in Victoria, London, for £4.33m including stamp duty and fees. This represented a rare opportunity to participate in the important central London market where generally the large lot sizes would put the majority of property out of Highcroft's reach. Initially the yield of 5.77% is a reflection of a moderately over-rented position, but the directors are confident further rental growth and continuing investor demand will ensure that this property will be a strong performer over the medium term.

Taken with the disposal referred to below and other disposals of smaller office buildings in Oxford and Abingdon, the directors believe that they have completed a modest but significant shift in emphasis within the office sector of the portfolio.

During the year the sale of the office buildings at Solihull was agreed for a consideration of £1.89m, and contracts were exchanged on l6 March 2007.

The directors continue to seek further opportunities to expand the portfolio. We are aware that certain property sectors may already have seen their peaks. We are also aware that the REITs conversion charge, were the company to convert, would add to the cost of newly acquired property assets without the benefit of eliminating historic tax liabilities.

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

Number of residential disposals	**2006**	2005	2004	2003	2002
Per annum	**2**	2	1	2	3

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 13.1% during 2006 and we made several disposals from the equity investment portfolio which gave a net loss in the income statement. During the course of 2006 there was a net investment in the equity investment portfolio of £29,000.

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

A development to add two residential units to the commercial property in Cirencester was completed.

- *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.*

We expect to sell the right to add residential units to the commercial property in Staines, acquired in January 2006.

- *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 2006 was £5,931,000 (2005 £1,500,000). The gearing ratio (i.e. medium term funding as a proportion of total equity) at 31 December 2006 was 13.3% (2005 3.6%).

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	2006	2005	2004	2003	2002
Commercial property income	**5%**	16%	7%	4%	8%
Residential property income	**25%**	4%	-5%	-11%	-3%
Total property income	**6%**	15%	6%	3%	7%
Dividend income	**44%**	19%	-10%	-5%	8%
Total income	**12%**	16%	4%	2%	8%

Value of voids and bad debts	2006	2005	2004	2003	2002
	£'000	£'000	£'000	£'000	£'000
Voids	**10**	–	–	–	–
Bad debts	**–**	–	–	–	–

Our first void for many years arose as part of the planned approach to the residential development at Staines.

Future developments for the business/future outlook

The board has monitored the development of the REITs legislation over recent years in the hope that this would represent an opportunity for Highcroft and its shareholders. The legislation is not simple and, more significantly, the proposed provisions in respect of substantial shareholders (those with shareholdings greater than 10%) changed regularly. However, we are now optimistic that during 2007 we will be in a position to call an Extraordinary General Meeting at which we will invite shareholders to approve the conversion of the company to a REIT. This will reduce significantly the tax liabilities of the group, thus increasing net asset value, and substantially increase the dividend returns for shareholders.

The property market has steadily risen in recent years contradicting those earlier forecasts which suggested it was peaking. The directors believe that certain property sectors may already have peaked and that there may well be a short-term flattening in values. We continue to look for investments which will give financial return in the medium term while remaining conscious of the forces affecting the market in which we operate.

Equity markets rose in 2006 and we expect further advances in 2007 although not at the same rate. Our activities in these markets may be more short term, although we predominantly seek return in the medium term. If we are successful in converting to a REIT, our equity investment portfolio will be limited to a maximum of 25% of the total portfolio.

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:

Christopher Clark: Christopher Clark, 64, 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 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, 61, 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, 49, is a chartered surveyor and director of Savills commercial department in Oxford, a multi discipline practice of property consultants. He was appointed as an independent non-executive director in 2002.

Jonathan Kingerlee: Jonathan Kingerlee, 46, 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. 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, 51, 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, 45, 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.

John Hewitt and David Bowman 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 2006 and at 31 December 2006 were as follows:

	31 December 2006		1 January 2006	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
J Hewitt	**10,000**	**–**	10,000	–
C J Clark	**1,950**	**–**	–	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**92,096**	**–**	92,096	–
D Bowman	**14,995**	**84,854**	16,660	91,448
D H Kingerlee	**166,250**	**74,300**	168,200	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 2007 to 21 March 2007.

Substantial shareholders

As at 21 March 2007 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	(24.6%)	1,272,700	–
D G & M B Conn and associates	(17.0%)	878,485	–
D H Kingerlee	(3.2%)	166,250	74,300
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 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 2006 when average creditor days were 31 (2005 27).

Donations

Donations to charitable organisations amounted to £3,600 (2005 £3,600). There were no political donations.

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

21 March 2007

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
C J Clark	1 January 2006	30 June 2009
J Hewitt	1 October 2006	30 June 2007
R N Stansfield	1 January 2006	30 June 2008
J C Kingerlee	1 July 2005	30 June 2008
D Bowman	1 July 2004	30 June 2007
D H Kingerlee	1 July 2006	30 June 2009

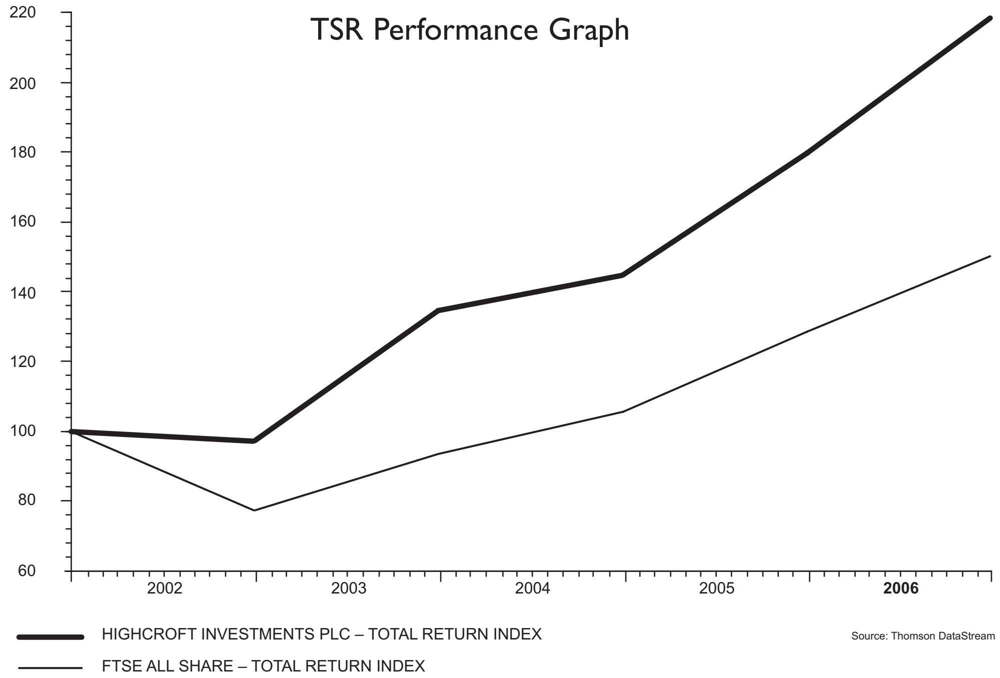
The remuneration of the non-executive directors is determined by the whole board. At the beginning of 2006, rates for non-executive directors were reviewed for the first time since 2002 and were benchmarked against available market data.

Directors' interests

Directors' interests are shown in the Report of the Directors on page 12. 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)

	2006	2005
	£	£
John Hewitt	**11,250**	7,500
Gavin Kingerlee (until 30 September 2006)	**11,250**	12,500
Christopher Clark	**10,000**	–
Richard Stansfield	**10,000**	8,295
Jonathan Kingerlee	**32,000**	31,000
David Bowman	**34,500**	27,525
David Kingerlee	**17,000**	16,250
	126,000	103,070

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 21 March 2007

We have audited the group financial statements of Highcroft Investments PLC for the year ended 31 December 2006 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, 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 reported separately on the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2006 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 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 auditor

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 information given in 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 unaudited part of 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 2006 and of its profits for the year then ended;
- the group financial statements 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

21 March 2007

	Note	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Gross rental revenue		**2,038**	**–**	**2,038**	1,917	–	1,917
Property operating expenses		**(136)**	**–**	**(136)**	(125)	–	(125)
Net rental revenue		**1,902**	**–**	**1,902**	1,792	–	1,792
Realised gains on investment property		**–**	**320**	**320**	–	44	44
Realised losses on investment property		**–**	**(33)**	**(33)**	–	(36)	(36)
Net realised gain on investment property		**–**	**287**	**287**	–	8	8
Valuation gains on investment property		**–**	**2,732**	**2,732**	–	3,464	3,464
Valuation losses on investment property		**–**	**(398)**	**(398)**	–	(65)	(65)
Net valuation gains on investment property		**–**	**2,334**	**2,334**	–	3,399	3,399
Dividend revenue		**489**	**–**	**489**	339	–	339
Gains on investments		**–**	**1,455**	**1,455**	–	1,748	1,748
Losses on investments		**–**	**(309)**	**(309)**	–	(142)	(142)
Net investment income		**489**	**1,146**	**1,635**	339	1,606	1,945
Administration expenses	3	**(247)**	**–**	**(247)**	(222)	–	(222)
Net operating profit before net finance expenses		**2,144**	**3,767**	**5,911**	1,909	5,013	6,922
Finance income		**13**	**–**	**13**	8	–	8
Finance expenses		**(201)**	**–**	**(201)**	(92)	–	(92)
Net finance expenses		**(188)**	**–**	**(188)**	(84)	–	(84)
Profit before tax		**1,956**	**3,767**	**5,723**	1,825	5,013	6,838
Income tax expense	5	**(456)**	**(884)**	**(1,340)**	(459)	(1,092)	(1,551)
Profit for the year	15	**1,500**	**2,883**	**4,383**	1,366	3,921	5,287
Basic and diluted earnings per share	7	**29.0p**	**55.8p**	**84.8p**	26.4p	75.9p	102.3p

The total represents the income statement as defined in IAS1.

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

	Note	**2006 £'000**	2005 £'000
Assets			
Non-current assets			
Investment property	8	**41,487**	33,461
Equity investments	8	**11,794**	10,620
Total non-current assets		**53,281**	44,081
Current assets			
Trade and other receivables	10	**489**	301
Cash and cash equivalents		**281**	725
Total current assets		**770**	1,026
Total assets		**54,051**	45,107
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings		**246**	71
Current income tax		**196**	358
Trade and other payables	11	**838**	725
Total current liabilities		**1,280**	1,154
Non-current liabilities			
Interest-bearing loans and borrowings	12	**5,685**	1,429
Deferred tax liabilities	13	**4,211**	3,360
Total non-current liabilities		**9,896**	4,789
Total liabilities		**11,176**	5,943
Net assets		**42,875**	39,164
Equity			
Issued share capital	14	**1,292**	1,292
Revaluation reserve – property	15	**10,169**	8,734
– other	15	**4,601**	3,902
Capital redemption reserve	15	**95**	95
Realised capital reserve	15	**16,055**	15,306
Retained earnings	15	**10,663**	9,835
Total equity		**42,875**	39,164

These financial statements were approved by the Board of Directors on 21 March 2007.

J Hewitt

J C Kingerlee
Directors

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

	2006 £'000	2005 £'000
Operating activities		
Profit for the year	**4,383**	5,287
Adjustments for:		
Net valuation gains on investment property	**(2,334)**	(3,399)
Profit on disposal of investment property	**(287)**	(8)
Gains on investments	**(1,146)**	(1,606)
Finance income	**(13)**	(8)
Finance expense	**201**	92
Income tax expense	**1,340**	1,551
Operating cash flow before changes in working capital and provisions	**2,144**	1,909
(Increase)/decrease in trade and other receivables	**(188)**	68
Increase in trade and other payables	**113**	46
Cash generated from operations	**2,069**	2,023
Finance income	**13**	8
Finance expenses	**(201)**	(92)
Income taxes paid	**(650)**	(564)
Net cash flows from operating activities	**1,231**	1,375
Investing activities		
Purchase of non-current assets – investment property	**(7,437)**	–
– equity investments	**(1,029)**	(958)
Sale of non-current assets – investment property	**2,032**	469
– equity investments	**1,000**	675
Net cash flows from investing activities	**(5,434)**	186
Financing activities		
New medium term loans	**4,470**	–
Loan repayments	**(39)**	(70)
Dividends paid	**(672)**	(620)
Net cash flows from financing activities	**3,759**	(690)
Net increase in cash and cash equivalents	**(444)**	871
Cash and cash equivalents at 1 January 2006	**725**	(146)
Cash and cash equivalents at 31 December 2006	**281**	725

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 2006 comprise the company and its subsidiary, together referred to as the group.

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 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 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 2006, 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 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.

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.

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 following temporary differences are not provided for: the effect of neither accounting nor taxable profit, and differences relating to the investment in the subsidiary to the extent that it will probably not reverse in the foreseeable future.

1 Significant accounting policies (continued)

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.

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash and cash available at less than 24 hours notice at no penalty.

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.

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

	2006	2005
	£'000	£'000
Commercial property		
Gross income	**1,933**	1,833
Profit for the year	**2,288**	3,774
Assets	**39,312**	31,951
Liabilities	**8,559**	3,657
Residential property		
Gross income	**105**	84
Profit/(loss) for the year	**813**	(19)
Assets	**2,874**	2,521
Liabilities	**736**	621
Financial assets		
Gross income	**489**	339
Profit for the year	**1,282**	1,532
Assets	**11,865**	10,635
Liabilities	**1,881**	1,663
Total		
Gross income	**2,527**	2,256
Profit for the year	**4,383**	5,287
Assets	**54,051**	45,107
Liabilities	**11,176**	5,941

3 Administrative expenses

	2006	2005
	£'000	£'000
Directors (note 4)	**141**	112
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**6**	10
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**11**	9
Tax services	**11**	10
Other services pursuant to legislation	**4**	7
Other expenses	**74**	74
	247	222

4 Directors

	2006	2005
	£'000	£'000
Remuneration in respect of directors was as follows:		
Remuneration	**126**	103
Social security costs	**15**	9
	141	112

The average number of employees, all of whom were directors, of the group during the year was 7 (2005 6). More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report.

5 Income tax expense

	2006	2005
	£'000	£'000
Current tax:		
On revenue profits	**363**	461
On capital profits	**83**	8
Prior year overprovision	**(11)**	(1)
	435	468
Deferred tax (note 13)	**905**	1,083
	1,340	1,551

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2005 30%). The differences are explained as follows:

	2006	2005
	£'000	£'000
Profit before tax	**5,723**	6,838
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2005 30%).	**1,716**	2,051
Effect of:		
Tax exempt revenues	**(119)**	(87)
Chargeable gains less than accounting profit	**(246)**	(411)
Adjustments to tax charge in respect of prior periods	**(11)**	(2)
Income tax expense	**1,340**	1,551

6 Dividends

On 21 March 2007, the directors declared an ordinary dividend of 9.0p per share (2005 8.3p) payable on 6 June 2007 to shareholders registered at 4 May 2007.

The following dividends have been paid by the group.

	2006	2005
	£'000	£'000
2005 Final: 8.30p per ordinary share (2004 7.65p)	**429**	395
2006 Interim: 4.70p per ordinary share (2005 4.35p)	**243**	225
	672	620

7 Earnings per share

The calculation of earnings per share is based on the profit for the year of £4,383,000 (2005 £5,287,000) and on 5,167,240 shares (2005 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2006 and throughout the period since 1 January 2005.

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 £1,500,000 (2005 £1,366,000) has been calculated.

	2006 £'000	2005 £'000
Earnings:		
Basic earnings (profit for the year)	**4,383**	5,287
Adjustments for:		
Net valuation gains on investment property	**(2,621)**	(3,407)
Gains and losses on investments	**(1,146)**	(1,606)
Income tax on gains and losses	**884**	1,092
Adjusted earnings (operating profit)	**1,500**	1,366
Per share amount:		
Basic earnings per share	**84.8p**	102.3p
Adjustments for:		
Net valuation gains on investment property	**(50.7)p**	(65.9)p
Gains and losses on investments	**(22.2)p**	(31.1)p
Income tax on gains and losses	**17.1p**	21.1p
Adjusted earnings per share	**29.0p**	26.4p

8 Investment property

	2006 £'000	2005 £'000
Valuation at 1 January 2006	**33,461**	30,523
Additions	**7,437**	–
Disposals	**(1,745)**	(461)
Surplus on revaluation	**2,334**	3,399
Valuation at 31 December 2006	**41,487**	33,461

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 2006, 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 2006, investment property with a carrying amount of £9,725,000 is subject to registered debentures to secure medium-term bank loans (see note 12).

In accordance with IAS 40, 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.

8 Investment property (continued)

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

	2006 £'000	2005 £'000
Less than one year	**2,106**	1,831
Between one and five years	**7,240**	6,401
More than five years	**11,078**	11,166
Total	**20,424**	19,398

9 Equity investments

	2006 £'000	2005 £'000
Valuation at 1 January 2006	**10,620**	8,731
Additions	**1,029**	958
Disposals	**(1,087)**	(643)
Surplus on revaluation	**1,232**	1,574
Valuation at 31 December 2006	**11,794**	10,620

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

	2006 £'000	2005 £'000
Trade receivables	**421**	277
Other receivables	**68**	24
	489	301

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

11 Trade and other payables

	2006 £'000	2005 £'000
Trade payables	**531**	439
Social security and other taxes	**161**	158
Other payables	**146**	128
	838	725

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

12 Interest bearing loans and borrowings

	2006 £'000	2005 £'000
Medium term bank loans	**5,685**	1,429
The medium term bank loans comprise amounts falling due as follows:		
Between one and two years	**288**	71
Between two and five years	**1,002**	238
Over five years	**4,395**	1,120
	5,685	1,429

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:

	2006 £'000	2005 £'000
2019	**1,396**	1,429
2021	**4,289**	–
	5,685	1,429

The medium term bank loans are secured by a fixed charge on investment property which has a carrying value of £9,725,000 (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% (2005 30%).

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**

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	(123)	(55)	(178)
Provided in the year	498	585	1,083
At 31 December 2005	1,614	1,746	3,360

14 Share capital

	2006 £'000	2005 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2005 5,167,240) ordinary shares of 25p each	**1,292**	1,292

15 Total equity

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**

2005

	Equity £'000	Revaluation reserves Property £'000	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
Profit for the year	–	–	–	–	–	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

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 2006 or 31 December 2005.

17 Contingent liabilities

There were no contingent liabilities at 31 December 2006 or 31 December 2005.

18 Related party transactions

Kingerlee Holdings Limited owns 24.6% (2005 24.5%) 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 2006, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £480 (2005 £200) and a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2005 £14,000). The amount owed at 31 December 2006 was nil (2005 Nil). All transactions were undertaken on an arm's length basis.

19 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 receivables. The amounts presented in the balance sheet are net of any allowances for doubtful receivables, estimated by the directors. The group has no significant concentration of credit risk, with exposure spread over a number of tenants. The credit status of tenants is reviewed before properties are acquired and before properties are let.

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 2006 was 5.4%. 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 at 31 December 2006 of group financial liabilities, which are at variable rates, is as follows:

	2006	2005
	£'000	£'000
In less than one year or on demand:		
Bank borrowings	**246**	71
In more than one year but less than two years:		
Bank borrowings	**288**	71
In more than two years but less than five years:		
Bank borrowings	**1,002**	238
In more than five years:		
Bank borrowings	**4,395**	1,120
Total	**5,931**	1,500

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2006, in respect of which all conditions precedent had been met, were as follows:

	2006	2005
	£'000	£'000
Expiring in one year or less	**400**	400
Expiring after two years	**4,069**	8,500
Total	**4,469**	8,900

The facilities included above are subject to review by the provider of the facilities on 30 April 2007.

Currency risk

The group is not exposed to currency risk as it does not trade in foreign currencies. However, 19.1% (2005 16.7%) of the equity investment portfolio comprises overseas holdings 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 2006 the group had total borrowings of £5,931,000. Fair values were not materially different from book values at 31 December 2006.

20 Post balance sheet event

During the year ended 31 December 2006, the sale of office buildings at Solihull was agreed for a consideration of £1,890,000, and contracts were exchanged on 16 March 2007.

Largest property holdings of the group

	Valuation of holding at 31 December 2006 £'000
Office building in London, SW1	4,100
Distribution centre in Kidlington, Oxfordshire	3,350
Radio station and office building in north Oxford	3,250
Office building in central Bristol	3,100
Retail units in Staines	2,825
Distribution centre in Southampton	2,800
Retail unit in Leamington Spa	2,300
Licensed retail and restaurant property in Warrington	2,200
Retail units in Cirencester	1,975
Retail unit in Norwich	1,950
	27,850
Nineteen other commercial and residential properties	13,637
	41,487

The value of the above ten properties represents 67% (2005 69%) of the value of the property investment portfolio of the group at 31 December 2006.

Largest equity holdings of the group

	Valuation of holding at 31 December 2006 £'000
ANZ Banking Group	569
Royal Bank of Scotland	498
Rio Tinto	476
GlaxoSmithkline	469
HSBC Holdings	466
Slough Estates	399
Tesco	364
Bank of Nova Scotia	343
British Petroleum	329
Standard Chartered	298
	4,211
Sixty seven other equity holdings	7,583
	11,794

The value of the above ten investments represents 36% (2005 38%) of the value of the equity investment portfolio of the group at 31 December 2006.

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Investment properties – at annual valuation	**41,487**	33,461	30,523	25,436	23,098
Equity investments –at market value	**11,794**	10,620	8,731	8,062	7,700
Total net assets	**42,875**	39,164	34,497	32,161	29,667
Net asset value per share in issue at end of each year	**830p**	758p	668p	622p	574p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**2,038**	1,917	1,667	1,569	1,517
Dividend income	**489**	339	285	301	322
Profit available for distribution	**1,500**	1,366	1,211	1,140	1,074
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**84.8p**	102.3p	56.5p	58.7p	8.4p
Adjusted earnings per ordinary share	**29.0p**	26.4p	23.4p	22.1p	20.8p
Dividends paid per ordinary share	**13.70p**	12.65p	11.70p	11.00p	10.15p
All-Share Index	**3221**	2847	2410	2207	1894
FTSE 100 Share Index	**6221**	5618	4814	4477	3940
Highcroft year end share price	**732p**	615p	505p	480p	357p
Retail Price Index	**202.7**	194.1	189.9	183.5	178.5

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.

The directors are responsible for preparing 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 United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 United Kingdom 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.

In so far as the directors are aware:

– there is no relevant audit information of which the company's auditor is unaware; and

– the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By Order of the Board

D Bowman
Company Secretary 21 March 2007

We have audited the parent company financial statements (the "financial statements") of Highcroft Investments PLC for the year ended 31 December 2006 which comprise the principal accounting policies, the balance sheet and notes 1 to 14. These financial statements have been prepared under the principal accounting policies set out therein. We have also audited the information in 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 2006.

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 auditor

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 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 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 information given in 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. The other information comprises only the chairman's statement, report of the directors, the unaudited part of 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 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 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 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 2006 and of its profit for the year then ended;
- 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; and
- the information given in the directors' report is consistent with the financial statements.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford

21 March 2007

	Note		2006		2005
		£'000	**£'000**	£'000	£'000
Fixed assets					
Investments	5		**44,805**		40,581
Current assets					
Debtors	6	**1,832**		1,279	
Cash at bank		**281**		725	
		2,113		2,004	
Creditors – amounts falling due within one year	7	**38**		59	
Net current assets			**2,075**		1,945
Total assets less current liabilities			**46,880**		42,526
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
– Realised capital	9	**3,410**		3,252	
– Capital redemption		**95**		95	
– Investment revaluation	9	**39,133**		35,128	
– Profit and loss account	9	**2,950**		2,759	
			42,588		41,234
Shareholders' funds	11		**46,880**		42,526

These financial statements were approved by the Board of Directors on 21 March 2007.

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 £791,000 (2005 £2,710,000). Information regarding directors' remuneration appears on pages 13 and 14 of the consolidated financial statements.

3 Auditor's fees

	2006	2005
	£'000	£'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**6**	10
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**11**	9
Tax services	**11**	10
Other services pursuant to legislation	**4**	7
	32	36

4 Dividends

In 2006, the following dividends have been paid by the company.

	2006	2005
	£'000	£'000
2005 Final: 8.30p per ordinary share (2004 7.65p)	**429**	395
2006 Interim: 4.35p per ordinary share (2005 4.35p)	**243**	225
	672	620

On 21 March 2007, the directors declared an ordinary interim dividend of 9.0p per share (2005 8.3p) payable on 6 June 2007 to shareholders registered at 4 May 2007.

5 Equity investments

	Total	Shares in subsidiary undertaking	Other investments Listed	Other investments Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2006	40,581	29,961	10,616	4
Additions at cost	1,029	–	1,029	–
Disposals	(1,086)	–	(1,086)	–
Surplus on revaluation	4,281	3,049	1,232	–
Valuation at 31 December 2006	**44,805**	**33,010**	**11,791**	**4**

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 2006	**4,976**	**354**	**4,618**	**4**
Cost at 31 December 2005	4,757	354	4,399	4

At 31 December 2006, 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

	2006	2005
	£'000	£'000
Owed by subsidiary undertaking	**1,746**	1,253
Taxation	**17**	10
Other debtors	**69**	16
	1,832	1,279

7 Creditors - amounts falling due within one year

	2006	2005
	£'000	£'000
Other taxes and social security	**12**	1
Other creditors	**26**	58
	38	59

8 Share capital

	2006	2005
	£'000	£'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2005 5,167,240) ordinary shares of 25p each	**1,292**	1,292

9 Reserves

	— Non-distributable —		Distributable
		Realised	Retained
	Revaluation	capital	earnings
	£'000	£'000	£'000
At 1 January 2006	35,128	3,252	2,759
Profit retained	–	–	863
Dividends paid	–	–	(672)
Revaluation gains – equities	1,232	–	–
Revaluation gain – Rodenhurst Estates Limited	3,049	–	–
Realised gains	–	(72)	–
Surplus attributable to assets sold in the year	(276)	276	–
Tax on surplus attributable to assets sold in the year	–	(46)	–
At 31 December 2006	**39,133**	**3,410**	**2,950**

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 30% (2005 30%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Unrealised capital gains	**–**	–	**9,031**	8,036

11 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the financial year	**791**	2,710
Dividends	**(672)**	(620)
	119	2,090
Other recognised gains and losses:		
Surplus on revaluation of assets	**4,281**	3,540
Tax on prior years' surplus now realised	**(46)**	(56)
Net increase in shareholders' funds	**4,354**	5,574
Shareholders' funds at 1 January 2006	**42,526**	36,952
Shareholders' funds at 31 December 2006	**46,880**	42,526

12 Capital commitments

There were no capital commitments at 31 December 2006 or at 31 December 2005.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2006 or at 31 December 2005 except for deferred taxation (note 10).

14 Related party transactions

Kingerlee Holdings Limited owns 24.6% (2005 24.5%) 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 2006, 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 (2005 £14,000). The amount owed at 31 December 2006 was nil (2005 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.

NOTICE IS HEREBY GIVEN that the seventy ninth Annual General Meeting of the company will be held at The Dog House Hotel, Frilford Heath, Oxon, OX13 6QJ on Wednesday, 23 May 2007 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 2006.

2 To declare a final dividend of 9.00p per share on the ordinary shares of the company for the year ended 31 December 2006 to be paid on 6 June 2007 to shareholders registered on 4 May 2007.

3 In accordance with the Companies Act 1985 s241A(3) to approve the remuneration report for the year ended 31 December 2006.

4 To re-elect John Hewitt as a director of the company (retiring by rotation).

5 To re-elect David Bowman 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.

7 To consider as further business two resolutions received from certain members under section 376 of the Companies Act 2006, a copy of which is included with this notice.

By Order of the Board

D Bowman
Company Secretary

Registered Office
Thomas House
Langford Locks
Kidlington
Oxon
OX5 1HR

21 March 2007

Notes:

a Any member entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, vote instead of him or her; such proxy need not be a member of the company. The appointment of a proxy will not preclude a member from attending and voting at the meeting in person.

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 the 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, during normal business hours at the Registered Office by appointment. They will also be available for inspection at the place of the Annual General Meeting from 11.45 am on 23 May 2007 until the conclusion of the Annual General Meeting.

e Biographical details for John Hewitt and David Bowman are on page 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