EL ORO AND EXPLORATION COMPANY p.l.c.

Company No: 80408

Founded 1 November 1886

Interim Report

for the twelve month period ended 31 December 2005

EL ORO AND EXPLORATION COMPANY p.l.c.
CHAIRMAN'S STATEMENT
28 April 2006

Change of Accounting Reference Date
Second Interim Report and Declaration of dividend

El Oro and Exploration Company p.l.c. (the "Company") announces that the Board has resolved to change the Company's accounting reference date from 31 December to 30 June. In consequence the Company's next statutory reporting period will cover the eighteen month period ended 30 June 2006.

As a result of the change of accounting reference date, the Company also today publishes a second interim report and declares a dividend covering the twelve month period ended 31 December 2005, the text of which forms part of this announcement.

The principal reason for the change of accounting reference date is to enable the Company to conclude a review of its strategic options to address certain potential financial, taxation, structural and operational matters which arise from the Company's adoption of IFRS in accordance with the Listing Rules, the Transparency Directive and the IAS Regulation (1606/2002 EC). The Board considers that it is in the best interests of its stockholders to conclude this review before the Company is required to publish a preliminary statement of final results. The Board wants to examine a range of alternatives which could be more favourable for the Company and its stockholders. This review is expected to examine the most appropriate operating and listing structure for the Group to ensure that it is able to operate efficiently in an administrative and regulatory environment appropriate to its size and the nature of its activity.

As part of that review, the Company is considering whether AIM would be a more appropriate market for the Company's stock units. No decision has yet been reached by the Board on this or any other aspect of the strategic review. Specifically, any decision to de-list, if taken, from the Official List of the UKLA will be subject to prior stockholder approval.

Second interim Report and Chairman's Statement

The Group profit before tax for the twelve month period ended 31 December 2005 was £8,934,524 (2004: £3,005,700). Group net assets at 31 December 2005 under IFRS, taking all assets at fair value were £65,763,460 (equal to 607p per stock unit) as compared with £67,905,581 under UK GAAP at 31 December 2004 (equal to 573p per stock unit).

The difference between the IFRS and UK GAAP measurement of the fair value of net assets is that under UK GAAP at 31 December 2004 the figure took no account of the £11,294,608 potential corporation tax due on the excess of market values of net investments over net book cost at that date, which is recognized in the IFRS figures at 31 December 2005.

We are declaring an interim dividend for the twelve month period ended 31 December 2005 of 12p per stock unit. The dividend will be paid on 26 October 2006 to members registered on the books of the Company at the close of business on 22 September 2006.

Those were the days my friend, we thought they'd never end….

Were it appropriate to be exultant, now would indeed be the time on presenting the most exuberant results in your company's history. However, in an era of excess in pay, profits and debt, pride comes before a fall. Whilst acknowledging progress, the successes of our portfolio are also tinged with sadness to have seen so many stalwarts depart to takeovers; WMC Resources, East Surrey Water, Gales Brewery, Burtonwood, following hard on the heels of Glenmorangie. These once small stones became the rocks on which this great portfolio has been built, and will be hard to replace, at a time when we sniff a hint of euphoria in the air, particularly in the mining arena.

EL ORO AND EXPLORATION COMPANY p.l.c.
CHAIRMAN'S STATEMENT *continued*

We have nevertheless meandered from the mountains of Mendoza to the desert dunes of Mauritania, via pubs of McMullens, not to mention the endless expanses of Australia, searching for value; hopefully some future gems are already ensconced within the selection of shares to replace and replicate the gains of those departed.

We remain well represented across the metals spectrum, with several prospects approaching the early stage of mine-construction. The strength of base metals has so far confounded the sceptics, and exceeded the wildest hopes of the optimists, especially copper, zinc and latterly nickel. Whilst we are advised that radical reforms are afoot in China that will change that country's emphasis away from energy and resource-reliant sectors, we are inclined to believe that metal prices will not revert to the lower levels prevailing over the last decade.

The portfolio has already, in recent months, been boosted by offers for Bristol Water and further afield, for Tethyan Copper in Pakistan. We believe that the need to secure supplies will sustain good projects in the metals and energy sectors. We note the incipient unrest in Latin America, unleashed by Hugo Chavez and visible in Bolivia and Peru at present, also in Indonesia, where the heady mix of nationalism with whipped-up environmental concerns, threaten various projects and Mines. We notice that, Phoenix-like, there are suggestions that Bougainville, the great copper mine of the early 70's, may reopen, proving the adage 'what goes around, comes around' (great mines, like Rockers, never die, even if the equipment does succumb to rust).

Our goal, in the light of such uncertainty, is to spread our assets so that the more secure areas can take up the slack, should exciting but vulnerable projects succumb to these types of threats, just as Bougainville did 20 years ago.

At the same time, our gold holdings, of shares and bullion, should counterbalance instability: in emerging markets, currently undergoing a shakeout, Europe, with its sclerotic and change-resistant populace, and the perennially-threatened dollar.

Whilst the latter remains the currency of choice, except perhaps in Iran, the waning stature of the United States, consequent on its financial and morale-sapping involvement in Iraq, combined with the US Budget and Trade deficits, has severe implications for the health both of the dollar and the security of the World. Whilst the two deficits have been present to a greater or lesser extent over the last 30 years, the figures have now ballooned beyond any semblance of control. Indeed Congress has now had to raise the permissible borrowing limit to nine trillion dollars. We feel the time approaches when as with Belshazzar, the unseen hand writes: "Mene, Mene, Tekel, uPharsin" we suspect the Dollar will be found wanting, and may well see vengeance exacted by the successors to the Medes and Persians.

However benign or perverse the progress of the world economy, at home we remain underpinned by our excellent array of Breweries, Pubs and Real Estate and Utilities. Few things could be more cheering than the sight of that fresh-faced enthusiast, the fearsome and fearless Freddie Flintoff clutching his pint of beer after his team's signal success in Bombay. How sad that our Chancellor so misses the mood of the moment that duty on champagne is pegged, whilst that on beer is raised. The socialists have already wreaked their vengeance on this best of British drink, with their ridiculous and expensive new licensing laws, as well as their assault on the freedom to smoke in specific venues. These requirements have undoubtedly adversely affected the refreshment industry and our interests therein. The ferociously fighting Oxford crew's notable triumph over Cambridge has dispersed at least some of that champagne.

The Gauleiters have even taking to rifling through our rubbish to see if we have inadvertently mixed business mail with the domestic collection, threatening fines: not only is there a succession of trucks removing different types of refuse, but civil servants taking on the role of Bombay street urchins, searching through the litter.
No wonder the State now needs one quarter of the population to spy on those few wistfully working, Satellites and Helicopters are used to monitor farmers' land, and whether they have supplied correct information: given the complexity of the new forms, it would be something of a miracle if there were no errors.

EL ORO AND EXPLORATION COMPANY p.l.c.
CHAIRMAN'S STATEMENT *continued*

Despite this use of technology, it is beyond the power of Defra to process and pay the grants due to the working farmers of England. Needless to say no heads roll, however inadequate the implementation of government policy. The Government's cruise amongst increasing shoals of calamitous overspending is compounded by almost inconceivable incompetence, threatening the stability of the Public Services and rule of Law. The reputation of Parliament has been thoroughly besmirched, amongst the greed for glory and degraded titles. As if that were insufficient, we are now faced with the spectacle of repeated private deceit, adding to public deception.

Sadly, in the midst of this mayhem, the new leader of the opposition is ensconced in his Japanese-made excuse for a solution to the impact of nature, whilst seeking the salve for the Conservative soul in the Samuel Smiles School of Self-Help; an exercise similar, we suspect to that engaged upon by the Church of England with its abandonment of the Book of Common Prayer in an ever more frantic and futile attempt to appeal to a new generation of believers. The Chancellor has decided to dispense with improving British education, and concentrates on that of Africa. It may hearten him to know that the children and adults of Akjouit in Mauritania are already flocking to school before his help arrives to destroy privately supplied education. Believing, as we do, that the provision of clean water is more important to the world than hybrid-engines, or the difference between private and state education, we would refer our leaders to the words of the prophet Isaiah, ch.41 vv17 –19,written two and a half thousand years ago: 'When the poor and needy seek water, and there is none, I the Lord will hear them,…I will open rivers in high places, and fountains in the midst of the valleys: I will make the wilderness a pool of water,…' How much worthier a challenge, than gazing at Glaciers.

Somehow, we suspect that we will muddle through these and other assaults or neglects, as we have done since the foundation of the company in 1886, although it may be a forlorn hope to wish for a Government that helps rather than hinders in almost every area of life and business. We are at least grateful to the conductor on the Great Western, delayed at Maidenhead, who offered the passengers a chance to 'stretch your legs and have a smoke': something the great Anton Rupert of Remgro continued to do in moderation until his recent death at the age of 86, whilst spending his life building a broad and brilliant business.

We can hardly do better than quote, once again, the venerable and wise Richard Russell, of Dow Theory Letters: "In the new inflationary world, it makes sense to get in harmony with inflation. That means gold, oil, raw materials….you must take long-term positions. These are new bull markets that are just getting started. But as I've warned a thousand times, the hardest thing to do in the investment business is to assume the correct position - and then to STAY with that position through thick and thin, through vicious corrections, through all kinds of ignorant propaganda, through endless Government interference - until the bull market finally blows its top somewhere far down the line." We will strive with every fibre to follow this maxim.

We are hugely grateful to all those executives who work so tirelessly for our investments, such as John Jones building mines and a new team at Troy; and Tim Bonham, who leaves such a good legacy at Hardys and Hanson; the teams at Youngs and M.P.Evans, and many other unsung heroes, both here and abroad.

Within our own, crumbling walls, Chris enters the final furlong with us, with the mammoth task of meeting new regulations and deadlines; even his legendary timeliness is tested to its limit. Abbie steadily shrinks whilst her workload increases, and is tackled with her inimitable enthusiasm and fortitude. Andrea has reinforced the blondes on the team, whilst Rosanna breeds bonny babies to entrance the aural chords of England.

My thanks to them all, my co-Directors, colleagues and advisers for sage advice and support.

C. Robin Woodbine Parish
28 April 2006

CONSOLIDATED INCOME STATEMENT
(Unaudited)
for the 12 month period ended 31 December

	Group 2005	Group 2004 restated *
	£	£
Revenue	**13,555,296**	5,184,007
Movement in fair value through the income statement investments	**110,090**	–
Movement in fair value of investment properties	**(15,114)**	(4,621)
Impairment (loss)/ reversal of impairment on available for sale investments	**(2,346,191)**	798,513
Expenses	**(1,628,357)**	(2,236,176)
Operating profits	**9,675,724**	3,741,723
Finance costs:		
Banks	**734,900**	716,455
Other	**6,300**	19,568
	741,200	736,023
Profit before taxation	**8,934,524**	3,005,700
Taxation	**2,752,454**	1,080,051
Profit for the period	**£6,182,070**	£1,925,649
Earnings per stock unit (basic and diluted)	**56.80p**	16.15p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Unaudited)
for the 12 month period ended 31 December

	Group 2005	Group 2004 restated *	**Company 2005**	Company 2004 restated *
	£	£	**£**	£
Profit for the period	**6,182,070**	1,925,649	**6,237,023**	1,966,605
Recognition of financial instruments at 1 January 2005:				
Available for sale reserve	**25,640,476**	–	**25,640,476**	–
Retained earnings	**(232,665)**	–	**(232,665)**	–
Revaluation of available for sale investments	**19,578,921**	–	**19,578,921**	–
Tax on revaluation of available for sale investments	**(5,873,676)**	–	**(5,873,676)**	–
Total recognised income and expense for the period	**£45,295,126**	£1,925,649	**£45,350,079**	£1,966,605

* Restated for the effect of adoption of IFRS - see notes attached.

BALANCE SHEETS
(Unaudited)
at 31 December

	Group 2005	Group 2004 restated *	**Company 2005**	Company 2004 restated *
Assets	**£**	£	**£**	£
Non-current assets				
Property, plant and equipment	**758,338**	1,343,175	**758,338**	752,777
Investment property	**496,688**	611,475	**496,688**	261,475
Investments in subsidiary companies	**–**	–	**461,938**	493,249
	1,255,026	1,954,650	**1,716,964**	1,507,501
Current assets				
Trade and other receivables	**327,007**	380,635	**327,007**	315,247
Financial assets:				
Available for sale instruments	**95,435,014**	39,693,884	**95,428,192**	39,686,909
Derivative financial instruments	**–**	39,325	**–**	39,325
Commodities	**1,236,774**	–	**1,236,774**	–
Cash and cash equivalents	**202,043**	173,608	**191,878**	161,412
	97,200,838	40,287,452	**97,183,851**	40,202,893
Liabilities				
Current liabilities				
Financial liabilities:				
Borrowings	**15,971,052**	12,400,813	**15,971,052**	12,266,154
Derivative financial instruments	**–**	128,481	**–**	128,481
Trade and other payables	**896,145**	735,117	**14,736,958**	14,739,528
Current tax liabilities	**7,498,377**	846,027	**7,498,377**	846,027
	24,365,574	14,110,438	**38,206,387**	27,980,190
Net current assets	**72,835,264**	26,177,014	**58,977,464**	12,222,703
Non Current Liabilities				
Deferred tax liabilities	**8,572,530**	1,764	**8,572,530**	1,764
Net assets	**£65,517,760**	£28,129,900	**£52,121,898**	£13,728,440
Stockholders' equity				
Ordinary stock units	**541,785**	592,045	**541,785**	592,045
Share premium	**6,017**	6,017	**6,017**	6,017
Capital redemption reserve	**344,442**	294,182	**344,442**	294,182
Merger reserve	**3,563**	(149,798)	**–**	–
Other reserves	**33,700,049**	–	**33,700,049**	–
Retained earnings	**30,921,904**	27,387,454	**17,529,605**	12,836,196
Total equity	**£65,517,760**	£28,129,900	**£52,121,898**	£13,728,440

* Restated for the effect of adoption of IFRS - see notes attached.

CONSOLIDATED CASH FLOW STATEMENT
(Unaudited)
for the 12 month period ended 31 December

	Group 2005 £	Group 2004 restated £	**Company 2005 £**	Company 2004 restated £
Operating activities				
Net profit from operating activities	**6,182,070**	1,925,649	**6,237,023**	1,966,605
Depreciation	**29,240**	58,933	**29,240**	31,900
Impairment (loss)/ reversal of impairment on available for sale investments	**2,346,191**	(798,513)	**2,346,191**	(798,513)
Loss on disposal of Danby Registrars Limited	**–**	–	**31,311**	–
Foreign exchange profits	**(875,886)**	(109,017)	**(875,886)**	(109,017)
Movement in fair value of investment properties	**15,114**	4,621	**15,114**	4,621
Movement in fair value through the income statement investments	**(110,090)**	–	**(110,090)**	–
Interest expense	**741,200**	736,023	**741,200**	723,988
Income tax expense	**2,987,918**	1,080,051	**2,987,918**	1,114,281
Cash flow from operating profit before changes in working capital	**11,315,757**	2,897,747	**11,402,021**	2,933,865
Increase in available for sale investments	**(9,355,728)**	(2,756,496)	**(9,355,883)**	(1,478,046)
(Increase)/decrease in fair value through income statement investments	**(622,203)**	1,289,813	**(622,203)**	–
Decrease/(increase) in trade and other receivables	**11,174**	651,417	**(7,357)**	847,596
(Decrease)/increase in trade and other payables	**(57,943)**	215,302	**(221,598)**	(4,797,904)
Cash generated from operations	**1,291,057**	2,297,783	**1,194,980**	(2,494,489)
Income taxes paid	**(2,221,389)**	(1,191,264)	**(2,176,870)**	(1,211,467)
Cash flow from operating activities	**(930,332)**	1,106,519	**(981,890)**	(3,705,956)
Investing activities				
Net cash disposed of with Danby Registrars Limited	**(5,000)**	–	**–**	–
Cost of stock units repurchased and cancelled	**(14,621)**	(398,846)	**(95,691)**	(398,846)
Purchase of property, plant and equipment	**(34,801)**	(120,524)	**(34,801)**	(767,977)
Purchase of investment property	**(250,327)**	(138,787)	**(250,327)**	(138,787)
Cash flow from investing activities	**(304,749)**	(658,157)	**(380,819)**	(1,305,610)
Cash flow in financing activities				
Interest paid	**(758,739)**	(702,759)	**(758,739)**	(690,724)
Dividends paid to equity stockholders	**(1,215,694)**	(1,311,727)	**(1,215,694)**	(1,311,727)
New mortgages	**194,402**	97,950	**194,402**	97,950
Repayment of mortgages	**(3,801)**	(2,229)	**(3,801)**	(2,229)
Cash flow from in financing activities	**(1,783,832)**	(1,918,765)	**(1,783,832)**	(1,906,730)
Net decrease in cash and cash equivalents	**(3,018,913)**	(1,470,403)	**(3,146,541)**	(6,918,296)
Cash and cash equivalents at start of period	**(12,079,276)**	(10,608,873)	**(11,956,813)**	(5,038,517)
Effect of foreign exchange rate changes	**(98,789)**	–	**(98,789)**	–
Recognition of forward gold contracts at 1 January 2005 in accordance with IAS/39	**(456,274)**	–	**(456,274)**	–
Cash disposed of with subsidiary	**5,000**	–	**–**	–
Cash and cash equivalents at end of period	**£(15,648,252)**	£(12,079,276)	**£(15,658,417)**	£(11,956,813)

NOTES TO THE CONSOLIDATED INTERIM STATEMENTS

Primary note to the financial statements
The consolidated interim financial statements for the twelve month period ended 31 December 2005 have bee prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (collectively 'IFRS'), issued by the International Accounting Standard Board (IASB). Comparatives for the twelve mont period to 31 December 2004 and at 31 December 2004 have been restated from UK GAAP to IFRS, with the exception of the requirements of IAS32 "Financial Instruments: Disclosure and Presentation" and IAS39 "Financial Instruments: Recognition and Measurement", which have been applied with effect from 1 January 2005.

Significant accounting policies
El Oro and Exploration Company p.l.c. is a company domiciled in the United Kingdom. The consolidated interim financial statements of the Group for the twelve month period ended 31 December 2005 comprise the Company and its subsidiaries (together referred as the "Group").

The consolidated interim financial statements were authorised by the Directors for issuance on 27 April 2006.

a. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (collectively 'IFRS'), issued by the International Accounting Standard Board (IASB).

The consolidated interim financial statements do not include all of the information required for full annual financial statements. An explanation of how the transition to IFRS has affected the reported financial position and performance of the Group is provided in note o. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK GAAP (previous GAAP) to those reported for those periods under IFRS.

b. Basis of preparation

The financial statements are presented in sterling. They are prepared under the historical cost convention as modified by the revaluation of financial instruments held for trading, financial instruments classified as available for sale and investment properties.

The accounting policies set out below have been applied in preparing the financial information contained in this report. The Group has not adopted IAS34 – Interim Financial Reporting

This interim report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2004, which was prepared under UK GAAP, and on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Although these estimates are based on managements knowledge of the amount, event or actions, where such judgements are made they are indicated within the accounting policies below.

The IFRS that will be effective or available for voluntary early adoption in the financial statements for the eighteen month period ended 30 June 2006 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared for the eighteen month period ended 30 June 2006.

The preparation of the consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. Comparatives have been prepared under IFRS, with the exception of items accounted for under IAS32 and IAS39 where the exemption for restatement of comparatives has been taken. The impact on the transition from previous GAAP to IFRSs is explained in note o.

The accounting policies have been applied consistently throughout the Group for the purpose of these consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM STATEMENTS *continued*

c. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities that are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

ii. Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements.

d. Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement and the cash flow statement includes cash flow differences at average rates.

e. Property, plant and equipment

i. Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation.

ii. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. The rates of depreciation are as follows:

Freehold property	2%
Paintings	2%
Computer equipment	33%
Fixtures and fittings	33%

f. Investments

Investments are recognised and de-recognised on the trade date where a purchase or sale is made under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

i. Investments in debt and equity securities and other financial assets

The Group’s investments are defined by IFRS as investments designated at fair value through the income statement or available for sale, depending on the purpose for which the investment or asset was acquired.

The Group's accounting policy for each category is as follows:

Fair value through the income statement:

This category comprises only derivatives and commodities. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. Fair value is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is listed.

On disposal, realised gains and losses are also recognised in the income statement. Transaction costs are charged to revenue in the income statement. The Group does not have any other assets held for trading nor does it voluntarily classify any other financial assets as being at fair value through the income statements.

NOTES TO THE CONSOLIDATED INTERIM STATEMENTS *continued*

f. Investments *continued*

All other investments in debt and equity securities and other financial assets, including available for sale instruments: Non-derivative and commodities financial instruments not included in the above categories are classified as available for sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries. They are carried at fair value with changes in fair value recognised directly in equity. Fair value is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is listed. On disposal, realised gains and losses are recognised in the income statement. Transaction costs are included within the cost of the investments. Where a decline in the fair value of an available for sale investment constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

In respect of unlisted investments, or where the market for a financial instrument is not active, fair value is established by using valuation techniques, which may include using recent arms length market transactions between knowledgeable, willing parties, if available or reference to the current fair value of another instrument that is substantially the same. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such unlisted investments, they are carried at cost, subject to any provision for impairment. Foreign exchange gains and losses arising from investments fair valued through the income statement are included within the changes in their fair values.

Foreign exchange gains and losses arising on available for sale investments are credited or charged in the income statement.

ii. Investment Income

Income from investments includes all dividends, rents and interest on non-government securities receivable within the year. Dividend income from investments is recognised when the Group's and Company's right to receive payment has been established and this is normally the ex-dividend date. Provision is made for any dividends not expected to be received.

Where the Group and Company has elected to receive dividends in the form of shares rather than cash, the amount of the cash dividend foregone is recognised as income. The excess, if any, in the value of shares received over the sum of the cash dividend forgone is recognised as a gain in the income statement.

UK dividend income is recorded at the amount receivable without any attributable tax credit. Overseas dividend income is shown gross of withholding tax.

Gains/losses on sale of investments are recognised in the income statement together with their related foreign exchange differences in respect of holdings in foreign investments.

iii. Investment properties

Investment properties are properties owned by the Group which are held to earn rental income and for capital appreciation. Investment properties are initially recognised at cost and revalued at the balance sheet date to full value as determined by professionally qualified external valuers on the basis of market value.

Any gain or loss arising from a change in fair value of investment properties is recognised in the income statement. The Group has elected to use the fair value model and depreciation is not provided on investments properties. Rental income from investment property is accounted for when due.

NOTES TO THE CONSOLIDATED INTERIM STATEMENTS *continued*

g. Trade and other receivables
Trade and other receivables do not carry any interest and are short term in nature; they are accordingly stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

h. Cash and cash equivalents
Cash and cash equivalents comprises cash balances with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flow.

i. Transaction costs
Transaction costs are included in the costs of investments purchased and deducted from the proceeds of investments sold for available for sale investments. These costs are charged to the income statement for investments recognised as fair value through the income statement.

j. Financial liabilities
The Group and Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group's and Company's accounting policy for each category is as follows:

Fair value through the income statement:
This category comprises short derivative financial instruments. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities:
Other financial liabilities include the following items:
- Trade payables and other short term monetary liabilities, which are short term in nature and are therefore stated at their nominal values; and
- Bank borrowings and mortgages are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

k. Taxation
The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date. Tax payable upon realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred tax.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit with the exception of deferred tax on revaluation surpluses where the tax basis used is the accounts historic cost.

Deferred tax is provided on all temporary differences. Deferred tax will crystallize when the asset for which a deferral of tax has been made or has been disposed of.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE CONSOLIDATED INTERIM STATEMENTS *continued*

l. Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequently, these borrowings are recognised at amortised cost.

m. Share capital

i. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

ii. Dividends

Dividends to stockholders are recognised as a liability in the period in which they are declared. The following dividends were declared by the Group:

	Group 12 mths to 31 Dec 2005 £	Group 12 mths to 31 Dec 2004 £
11.5p (2004: 11.0p) per stock unit	**£1,247,601**	£1,313,722

The Directors are proposing an interim dividend of 12.0 pence (2004: 11.5 pence) per stock unit totalling £1,380,284 (2004: £1,247,601). The dividend will be paid on 26 October 2006 to stockholders on the register of members on 22 September 2006.

n. Taxation

The total tax charge and tax liability for the twelve months is treated within the financial statements as follows:

	Group 12 mths to 31 Dec 2005 £	Group 12 mths to 31 Dec 2004 £
Shown within the consolidated income statement:		
Corporation tax charge for the twelve months	**£2,752,454**	£1,080,051
Included within current tax liabilities in the balance sheet:		
Amount due on mainstream corporation tax	**4,044,275**	846,027
Amount due on available for sale unrealized gains since 1 January 2005	**3,454,102**	–
	£7,498,377	£846,027

o. Explanation of transition to IFRS

The above accounting policies have been applied in preparing the consolidated interim financial statements for the twelve months ended 31 December 2005 and the comparative information for the twelve months ended 31 December 2004. The requirements of IAS32 "Financial Instruments: Disclosure and Presentation" and IAS39 "Financial Instruments: Recognition and Measurement" have been adopted with effect from 1 January 2005. The comparative figures do not therefore incorporate any restatements in respect of either IAS32 or IAS39.

The following statement sets out the changes made to stockholders' funds at 1 January 2004 and 31 December 2004 following the adoption of IFRS and separately the changes at 1 January 2005 to reflect the adoption of IAS32 and IAS39.

	Group Share Capital	Group Share Premium	Group Reval'n Reserve	Group Cap Red Reserve	Group Merger Reserve	Group Profit and Loss	Group Other Reserve (Available for sale investments)	Group Total
	£	£	£	£	£	£	£	£
At 1 Jan 2004 (UK GAAP)	592,045	6,017	204,256	289,081	(149,798)	25,009,680	–	25,951,281
Note 1	–	–	–	–	–	1,958,175	–	1,958,175
Note 2	–	–	(204,256)	–	–	204,256	–	–
At 1 Jan 2004 (IFRS)	592,045	6,017	–	289,081	(149,798)	27,172,111	–	27,909,456
Note 3	–	–	–	5,101	–	(398,846)	–	(393,745)
Note 4	–	–	–	–	–	1,995	–	1,995
Note 5	–	–	–	–	–	1,925,649	–	1,925,649
Note 6	–	–	–	–	–	(1,313,455)	–	(1,313,455)
At 31 Dec 2004 (IFRS)	592,045	6,017	–	294,182	(149,798)	27,387,454	–	28,129,900
Note 7	–	–	–	–	–	(232,665)	–	(232,665)
Note 8	–	–	–	–	–	–	25,640,476	25,640,476
At 1 Jan 2005 (IFRS)	592,045	6,017	–	294,182	(149,798)	27,154,789	25,640,476	53,537,711

Note 1	IRFS Adjustments: Increase in value to deemed cost of 41 Cheval Place-£654,738, reversal of the 2004 dividend to stockholders-£1,313,455 and adjustment to deferred taxation-£(10,018).
Note 2	Reclassify Revaluation reserves.
Note 3	Purchase and cancellation of own shares.
Note 4	Forfeited dividends.
Note 5	Profit for the twelve months.
Note 6	Dividends paid in 2004.
Note 7	Restatement of values of impaired stocks.
Note 8	Adjustment at 1 January 2005 in respect of IAS32 and IAS39 : Increase in value of available for sale instruments, less taxation at 30%