REAL ESTATE INVESTORS PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Company Registration Number:	5045715
Registered Office:	West Plaza, 8th Floor 144 High Street West Bromwich B70 6JJ
Directors:	P H Lewin: Chairman J J Jack: Deputy Chairman P P S Bassi: Chief Executive M H P Daly: Finance Director
Secretary:	M H P Daly
Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham B3 2HJ
Solicitors:	H B J Gateley Wareing One Eleven Edmund Street Birmingham B3 2HJ
Nominated Adviser:	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
Broker:	Kaupthing Singer & Friedlander One Hanover Street London W1S 1AX
Bankers:	Barclays Bank Plc 1st Floor 99 Hatton Garden London
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

I am pleased to report on a year of considerable progress and growth in Real Estate Investor's activities, especially so when set against the background of the continuing turmoil in the credit markets and the adverse effects on the commercial property sector.

The results for the year show a profit before tax of £1,777,000 (2006: loss of £424,000) including net property valuation gains of £807,000 (2006: deficits of £142,000), with basic earnings per share of 0.36p (2006 : loss per share of 0.41p). As at 31 December 2007 the net assets per share was 10.4p (2006 : 10.0p).

The present financial market turbulence is having a significant impact on the property market yet, despite this, in January 2008 we arranged a £20 million facility with Bank of Scotland against some of our unencumbered property, notwithstanding the general reluctance of many banks and institutions to lend. Together with our existing cash and bank facilities, we have £100 million at our disposal to make strategic acquisitions, and greatly expand the size and profitability of the Company, by capitalizing on existing market opportunities. I can assure shareholders, however, that we will be prudent and patient in our approach to further investment purchases as demonstrated by the lack of deals done in the last quarter of 2007, to reflect the current challenging business climate. Whilst waiting for the appropriate opportunities, and as a result of the credit crunch, we are also able to secure premium interest rates on our deposits.

Our decision to focus on the West Midlands region, where the management fully understands the economy and has an extensive network, has proved beneficial and employment and occupier demand remains positive in the West Midlands region, as evidenced by the lettings we have secured in the first quarter of 2008.

This is the first year in which the financial statements have been prepared under International Financial Reporting Standards (IFRS). The main changes in the presentation of the accounts are:

a) Goodwill is no longer amortised and is instead reviewed annually for impairment.

b) Gains on revaluation of investment property are taken to the income statement and deferred tax is recognized in respect of valuations.

c) Under UK GAAP negative goodwill is carried in the Balance Sheet. Under IFRS the excess of assets over the fair value of consideration is recognized in the income statement at the date of acquisition.

During the year we disposed of two properties, Portsmouth and Southend, both at prices in excess of the book value recorded in the 2006 financial statements. Whilst we have taken a prudent and realistic view of our portfolio valuations, to reflect the current market turbulence, I believe that our other assets could readily find purchasers at or above their book values, as evidenced by the current results being achieved in the London auction houses.

Following a valuation by DTZ, only a nominal allowance for capital growth has been made for properties acquired in 2007, due to the infancy of the asset management opportunities. However, we believe that these purchases will provide a very positive contribution to the 2008 results.

Our gross property assets increased over the twelve month period by 90% from £23.9 million to £45.3 million. Rental income for 2007 was £1.9 million compared to £1.4 million for 2006 and net assets increased from £34 million to £35.3 million again after allowing for the value of our assets as outlined above.

As stated earlier, our cash resources provide us with substantial firepower to acquire new assets. We anticipate that the current disorder in the property market could continue through the year, which could present acquisition opportunities – however, we will only be prepared to use our cash resources to make further acquisitions where valuations better reflect prevailing market conditions and vendors sell at revised and more realistic values. We will only make acquisitions that will provide considerable capital growth potential and attractive yields. We further believe that asset management opportunities will become more attractive to buy and more readily available to cash buyers like ourselves, as they will find bank funding difficult to secure. Via our association with Bond Wolfe, Bigwood and our extensive network, we continue to access investment and asset management opportunities.

The Board’s strategic decision not to acquire yield driven investment property, in anticipation of further yield compression, has proved to be a sensible one. Our policy of concentrating on assets where we can add value, create an investment opportunity and benefit from capital growth is serving us well and creates some protection against falls in commercial property values.

A progressive dividend policy is a major element in our stated strategy and demonstrates the Company’s progress and financial strength. If the Company achieves its financial targets for the current year and with a view to the prevailing market conditions, then the board intends to consider payment of an inaugural dividend.

Review of 2007

Whilst our press announcements and interactive website have covered our acquisitions in 2007, I provide below an update of activity since our year end.

Colmore Row

The comprehensive refurbishment programme is almost complete and new lettings have been achieved at target rents, or better. There is a strong demand for the remaining space, at similarly strong rental levels, and a further letting to Vantis PLC at a rental of £45,000 per annum is in solicitors' hands.

We are negotiating with an adjoining owner for a substantial capital payment to be made to REI, in respect of 'loss of light', and I will be reporting to you shortly on the successful conclusion of these negotiations.

Avon House

Only 2,400 sq ft from 24,000 sq ft remains unlet, following the letting of one floor to United Business Centres, one floor to Adroit Construction Plc and the remainder to West Mercia Housing (presently in legals). We anticipate a very positive capital enhancement as a result of these lettings. All rents achieved are at our target levels.

Guardian House

We acquired this investment property, as it was significantly under rented. Negotiations with the present occupier have reached an advanced stage and we are confident of finalising these shortly, leading to an increase in capital value.

Waterloo Street

Caffè Nero has now agreed a 15 year lease of the entire ground floor of this important city centre property at a commencing rent of £68,000 per annum, for a term of 15 years with 5 year reviews (presently in solicitors' hands). There is good tenant demand for the upper floor offices and a comprehensive refurbishment has begun which is aimed at private banking, corporate finance houses and similar professionals. Again we expect a very positive investment value during 2008.

Hagley Court

This is a prime Edgbaston office building with substantial car parking. This has now been refurbished and we have 5,919 sq ft already let to Jigsaw Insurance.

Latitude

This project, close to the Birmingham Hippodrome, was acquired from George Wimpey in September 2007 and comprises 198 residential flats being built by Wimpey and an open planning consent for the ground floor retail content, which we have acquired. Whilst the scheme is still some 15 months from completion, we are in discussions with several prospective tenants.

Bridge Street Walsall

In March this year we made our most recent acquisition, in Walsall town centre. The property, which comprises an unbroken retail parade with 12 units was purchased at an attractive yield as we were able to acquire this for cash within the vendor's financial year end deadline.

Outlook and prospects

REI remains firmly on course to achieve our stated objective of creating a £150 million property portfolio. Nevertheless, in light of the current unsettled market conditions and our resolve to be careful and selective buyers in 2008, we expect to fulfil this objective over a slightly longer time frame.

The management's confidence in REI's future is demonstrated by our Chief Executive increasing his shareholding through the purchase of shares in the market, many at a significant premium to the current share price. Paul Bassi's stake is now 20.77%.

We have experienced a very busy and exciting 2007, and 2008 has started well. Market conditions are turbulent, with the inevitable knock on effect to commercial property. Nevertheless, our strong funding position and extensive network position us well for 2008. Indeed, the property market is 'tailored' for our opportunistic ability and resources, when coupled with our association with Bond Wolfe and Bigwood Chartered Surveyors.

Finally, I wish to mention our small but highly dedicated staff. Our move to the West Midlands, and the establishment of new management systems, has placed special demands upon them and they have responded energetically; my thanks to them all.

Peter Lewin
Chairman
30 April 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal Activity
The principal activities of the Group are the investment in and trading of commercial properties.

Business Review
A review of the Group's performance and future prospects is given in the chairman's statement.

Key Performance Indicators
Create sustainable long-term returns for shareholders

- To sustain real growth in earnings per share – earnings per share for the year was 0.36p compared to a loss per share of 0.41p in 2006.
- Annual revenue profit to exceed budgeted target – achieved for the financial year.
- Increase net assets per share – net assets per share increased to 10.4p from 10p.

Maximise the returns from the investment portfolio
Continue the Group's strategy of finding the right property and creating the investment – the Group has acquired various properties during the year some of which were empty and some of which have been refurbished and the full benefit of the rental income will come through next year when they are fully let.

Directors
The directors who served during the year were as follows:

P H Lewin	Chairman – Non-Executive
J J Jack	Deputy Chairman – Non-Executive
P P S Bassi	Chief Executive
M H P Daly	Finance Director

P H Lewin will retire and submit himself for re-election at the forthcoming Annual General Meeting.

Substantial shareholdings
The Company has been notified of the following interests that represent 3% or more of the issued share capital of the company at 28 April 2008

	Number	%
P P S Bassi	70,749,493	20.77
Caledonia Investments Plc	65,165,000	19.13
Artemis Investment Management	29,975,000	8.80
Blackrock Investment Management	27,475,000	8.06
Foreign & Colonial	27,000,000	7.92
GAM	21,000,000	6.16
Threadneedle	14,130,397	4.15
Morley/Norwich Union	12,000,000	3.52

Creditor payment policy
The Group's policy is to settle all agreed liabilities within 30 days of receipt of invoice or provision of goods or services if later. At 31 December 2007 trade creditors represented 56 days (2006:35 days) purchases based on the total purchases for the year.

Charitable donations
The Group made no charitable donations during the period (2006: £nil).

Post balance sheet events
On 23 January 2008 the company raised £20 million by way of loan facilities from the Bank of Scotland which are secured on investment properties acquired during 2007. In addition on 28 March 2008 the Group acquired Bridge Street, Walsall for £2.4 million.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

Company Law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the profit and 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 judgments and estimates that are reasonable and prudent;
- state whether International Financial Reporting 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 business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group 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 Group and 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 auditor is aware of that information.

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

Auditor
Grant Thornton UK LLP offer themselves for re-appointment as auditor in accordance with Section 385 of the Companies Act 1985.

BY THE ORDER OF THE BOARD

M H P Daly

Secretary
30 April 2008

Directors’ statement on corporate governance

The Board of Directors is accountable to shareholders for the good corporate governance of the Group. Under the AIM rules for companies, the Group is not required to comply with the Combined Code of Corporate Governance published in July 2003. However, the Board is aware of the best practice defined by the Code and seeks to adopt procedures to institute good governance insofar as practical and appropriate for a Group of its size while retaining its focus on the entrepreneurial success of the business. The main elements of the Group’s governance procedure are documented below.

Application of principles

Directors

The composition of the Board is set out on page 5. The Board currently comprises two non-executive directors and two executive directors.

The Board aims to meet monthly and is provided with relevant information on financial, business and corporate matters prior to meetings. The Board is responsible for overall Group strategy, approval of property and corporate acquisitions and disposals, approval of substantial items of capital expenditure, and consideration of significant operational and financial matters. The Board has established both an Audit and Remuneration Committee. Given the small size of the Board, it is not considered necessary to establish a separate Nominations Committee. All members of the Board are fully consulted on the potential appointment of a new director. All directors are subject to re-election every three years.

Accountability and audit

The Audit Committee comprises the two non-executive directors and the finance director, by invitation. The committee overviews the adequacy of the Group’s internal controls, accounting policies and financial reporting and provides a forum through which the Group’s external auditor reports to the non-executive directors.

Going concern

After making relevant enquiries, 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.

Internal control

The Board has overall responsibility for ensuring that the Group maintains systems of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and that the assets of the business are safeguarded. It is acknowledged that such systems can only provide reasonable and not absolute assurance against material misstatements or loss. Key areas of internal control, which are overseen by the finance director, are listed below:

- the preparation of monthly financial information which reports actual performance and continuously updates monthly forecasts of revenue, expense, cash flows and assets and liabilities for the remainder of the current financial accounting period
- appraisal and approval of property and corporate investment proposals in the context of their cash flow profile, potential profitability and fit with the Group’s overall strategy
- ongoing review of the Group’s property portfolio and issues arising therefrom
- the close involvement of the executive directors in the day to day running of the business.

The Board has considered the need for an internal audit function but has decided the size and complexity of the Group does not justify it at present. However, it will keep this decision under annual review.

As a Company trading on AIM, the Company is not obliged to comply with the provisions of the Directors' Remuneration Reports Regulations. However, as part of its commitment to good corporate governance practice the Company provides the following information.

Remuneration Committee

The Remuneration Committee is made up of the two non-executive directors and the chief executive by invitation. The terms of reference of the committee are to review and make recommendations to the Board regarding the terms and conditions of employment of the executive directors.

Service agreements

No director has a service agreement with a notice period that exceeds 12 months.

Policy on directors' remuneration

The executive directors' remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to help the Group successfully compete in its market place. The Group's policies are to pay executive directors a salary at market levels for comparable jobs in the sector whilst recognizing the relative size of the Group. The executive directors do not receive any benefits apart from their basic salaries and any bonuses.

The performance management of the executive directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. No director plays a part in any decision about his own remuneration. Annual bonuses will be paid at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria. In exercising its discretion the committee will take into account (among other things) performance against budget and improving shareholder value and believes that incentive compensation should recognize the growth and profitability of the business.

Directors' remuneration (forming part of the financial statements and subject to audit)
The remuneration of directors for the year ended 31 December 2007 was as follows:

	Salary	Fees	2007 Total	2006 Total
	£000	£000	£000	£000
P H Lewin	-	15	15	218
J J Jack	-	15	15	12
P P S Bassi	230	-	230	20
M H P Daly	101	-	101	17
	331	30	361	267

Policy on Non-Executive Directors' remuneration

The remuneration of the non-executive directors is determined by the Board and based upon independent surveys of fees paid to non-executive directors of similar companies. The non-executive directors do not receive any benefits apart from their fees which are paid direct to the individual involved.

Share Warrants

The directors were granted share warrants on 29 June 2006 in respect of 21,275,000 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable one year from the date of the grant of the option and will lapse within five years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of grant, in proportion to their shareholding and are exercisable at 12p per share.

APPROVED BY THE BOARD OF DIRECTORS – P H Lewin
Chairman, Remuneration Committee
30 April 2008

We have audited the consolidated financial statements of Real Estate Investors Plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and notes 1 to 26. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Real Estate Investors Plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

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

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

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We 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, the Directors' Report, Corporate Governance Statement and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated 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 consolidated 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 consolidated financial statements.

Opinion

In our opinion:

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

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM
30 April 2008

REAL ESTATE INVESTORS PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007	2006
		£000	£000
Revenue		3,160	1,425
Cost of Sales		(1,113)	-
Gross profit		2,047	1,425
Administrative expenses		(967)	(869)
Surplus on disposal of investment property		171	45
Share of profit of joint venture		5	9
Net valuation gains/(deficits)		807	(142)
Profit from operations		2,063	468
Finance income	5	768	78
Finance costs	5	(1,054)	(970)
Profit/(loss) on ordinary activities before taxation	3	1,777	(424)
Income tax (expense)/credit	6	(548)	90
Net profit/(loss) for the year		1,229	(334)
Total and continuing earnings/(loss) per ordinary share			
Basic	7	0.36p	(0.41p)
Diluted	7	0.34p	(0.41p)

The results of the Group for the period related entirely to continuing operations.

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

REAL ESTATE INVESTORS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share Capital £000	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 1 January 2006	523	4,586	45	-	1,346	6,500
Net loss for the year and total recognised income and expense for the year	-	-	-	-	(334)	(334)
Share issue	2,884	25,957	-	-	-	28,841
Costs of share issue	-	(1,071)	-	-	-	(1,071)
Cost of share warrants	-	-	-	121	-	121
At 31 December 2006	3,407	29,472	45	121	1,012	34,057
Net profit for the year and total recognised income and expense for the year	-	-	-	-	1,229	1,229
At 31 December 2007	3,407	29,472	45	121	2,241	35,286

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

REAL ESTATE INVESTORS PLC

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007	2006
		£000	£000
Assets -			
Non current			
Intangible Assets	8	171	171
Investment properties	9	36,661	14,187
Property, plant and equipment	10	39	61
		36,871	14,419
Investment in joint venture	11	328	324
		37,199	14,743
Current			
Inventories	12	8,603	9,703
Trade and other receivables	13	1,177	488
Held to maturity investments	14	489	435
Cash and equivalents		4,866	26,889
		15,135	37,515
Total assets		52,334	52,258
Liabilities			
Current			
Bank loans	17	(437)	(370)
Provision for current taxation		(319)	(22)
Trade and other payables	15	(1,295)	(770)
		(2,051)	(1,162)
Non current liabilities			
Bank loans	17	(14,327)	(16,545)
Convertible debt	16	(325)	(325)
Deferred tax liabilities	18	(345)	(169)
		(14,997)	(17,039)
Total liabilities		(17,048)	(18,201)
Net assets		35,286	34,057
Equity			
Share capital	19	3,407	3,407
Share premium account		29,472	29,472
Capital redemption reserve		45	45
Other reserves		121	121
Retained earnings		2,241	1,012
Total Equity		35,286	34,057
Net assets per share	7	10.4p	10.0p

These financial statements were approved by the Board of Directors on 30 April 2008

Signed on behalf of the Board of Directors

P H Lewin – Chairman

M H P Daly – Finance Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Year ended 31 December 2007	Year ended 31 December 2006
	£000	£000
Cash flows from operating activities		
Profit/(loss) after taxation	1,229	(334)
Adjustments for:		
Depreciation	26	25
Net valuation (gains)/deficits	(807)	142
Surplus on sale of investment property	(171)	(45)
Share of profit of joint venture	(5)	(9)
Finance income	(768)	(78)
Finance costs	1,054	970
Taxation expense/(credit) recognised in profit and loss	548	(90)
Share warrants expense	-	121
Decrease in inventories	1,100	-
Increase in trade and other receivables	(756)	(69)
Increase/(decrease) in trade and other payables	526	(105)
(Increase)/decrease in held to maturity investments	(54)	847
	1,922	1,375
Interest paid	(1,054)	(1,030)
Income taxes paid	(11)	-
Net cash from operating activities	857	345
Cash flows from investing activities		
Acquisition of subsidiaries net of cash acquired	-	(566)
Purchase of investment properties	(23,067)	(2,011)
Purchase of property, plant and equipment	(4)	-
Proceeds from sale of investment property	1,571	456
Investment in joint venture	1	(224)
Interest received	771	90
	(20,728)	(2,255)
Cash flows from financing activities		
Proceeds from issue of share capital	-	26,769
Proceeds from bank loans	-	1,752
Payment of bank loans	(2,151)	(784)
Payment of finance lease liability	(1)	(3)
	(2,152)	27,734
Net (decrease)/increase in cash and cash equivalents	(22,023)	25,824
Cash and cash equivalents at beginning of period	26,889	1,065
Cash and cash equivalents at end of period	4,866	26,889

NOTES:
Cash and cash equivalents consist of cash in hand and balances with banks only.

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

1. Accounting policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of properties, and in accordance with International Financial Reporting Standards adopted by the European Union. Separate financial statements of Real Estate Investors PLC (the Company) have been prepared, on pages 36 to 45, under the historical cost convention and in accordance with applicable accounting standards under UK GAAP.

The transition to International Financial Reporting Standards (IFRS) has resulted in a number of changes in the reported financial statements, notes thereto and accounting policies compared to the previous annual report. Note 26 provides further details on the transition from UK GAAP to IFRS.

The principal accounting policies of the Group are set out below.

Consolidation of subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights. The consolidated financial statements of the Group incorporate the financial statements of the parent Company as well as those entities controlled by the Group by full consolidation.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group’s share of identifiable net assets of the acquired subsidiary at the date of acquisition.

Intra-Group balances and transactions, and any unrealised gains or losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations completed prior to transition to IFRS
The Group has elected not to apply IFRS3 Business Combinations retrospectively to business combinations prior to 1 January 2006. Accordingly the classification of the combination remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be recognised under IFRS, and are measured using the UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

The transitional provisions used for past business combinations apply equally to past acquisitions of interests in joint ventures.

Investment in joint ventures

Entities whose economic activities are controlled jointly by the Group and by other ventures independent of the Group are accounted for using the equity method.

In the consolidated financial statements the Group's interest in joint ventures is initially recognised at cost and adjusted thereafter for the post acquisition changes in the Group's share of results and movement in reserves of the joint venture.

All subsequent changes to the share of interest in the equity of the joint venture are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the joint venture are reported in "share of profit of joint venture" in the consolidated income statement and therefore affect net results of the Group. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in the joint venture's equity are recognised in the consolidated equity of the Group. However, when the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains and losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group’s interest in the joint venture. Where unrealised losses are eliminated, the underlying asset is also tested for impairment losses from the Group's perspective.

Income recognition

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties. The following criteria must be met before income is recognised.

Rental Income

Rental income arising from operating leases on properties owned by the Group is accounted for on a straight line basis over the period commencing on the later of the start of the lease or acquisition of the property by the Group, and ending on the earlier of the end of the lease and next break point, unless it is reasonably certain that the break option will not be exercised. Rental income revenue excludes service charges and other costs directly recoverable from tenants.

Sale of properties

Revenue from the sale of properties is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer, usually when legally binding contracts which are irrevocable and unconditional are exchanged and where completion of the contract for sale has taken place prior to the date on which the accounts are approved. Revenue is, therefore, recognised when legal title passes to the purchaser.

Goodwill

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Group's share of the identifiable net assets acquired.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Impairment

The Group's goodwill, plant and equipment and investment in joint venture are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level. Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls related cash flows.

Cash-generating units that include goodwill with an indefinite useful life are tested for impairment at least annually. All other individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets' or cash-generating units' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, using future expected revenues from the asset for cash-generating unit. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss on other assets is reversed if there has been a favourable charge in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are valued externally or by the directors on an open market basis at the balance sheet date and recorded at valuation. Any surplus or deficit arising on revaluing investment properties is recognised in the income statement in the period which they arise.

Leasehold improvements, office equipment and motor vehicles

Leasehold improvements, office equipment and motor vehicles are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is charged on the cost of these assets less their residual value on a straight line basis over the estimated useful economic life of each asset, by equal annual instalments over the following periods:

Leasehold improvements	-	length of lease
Office equipment	-	four years
Motor vehicles	-	four years

Property inventories

Trading properties, which are held for resale, are included in inventories at the lower of cost and net realisable value. Cost includes all fees relating to the purchase of the property and improvement expenses. Net realisable value is based on estimated selling price less future costs expected to be incurred to disposal. Property acquisitions are accounted for when legally binding contracts which are irrevocable and effectively unconditional are exchanged.

Operating Leases

Group company is the lessee

Leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Group company is the lessor

Properties leased out to tenants under operating leases are included in investment properties in the balance sheet when all the risks and rewards of ownership of the property are retained by the Group.

Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws enacted and substantively enacted at the balance sheet date, based on the taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised on the initial recognition of goodwill. This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in the value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

Financial assets

The Group's financial assets include cash, held to maturity investments and trade and other receivables.

All financial assets are initially recognised at fair value plus transaction costs.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement using the effective interest method, regardless of how the related carrying amount of financial assets is measured.

Trade and other receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of receivables. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity where it is the intention of the directors to hold them until maturity. Held to maturity investments are measured subsequent to initial recognition at amortised cost using the effective interest method. If there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments such as bank deposits, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Equity

- Share capital represents the nominal value of equity shares that have been issued.
- Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of expenses of the share issue.
- Other reserves represent the cumulative amount of the share based payment expense.
- Retained earnings include all current and prior period results as disclosed in the income statement.
- The capital redemption reserve represents the nominal value of shares cancelled on the purchase of own shares in order to maintain the capital base of the Group.

Financial liabilities

The Group's financial liabilities include bank loans and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreement of the instrument. All interest related charges are recognised as an expense in "finance costs" in the income statement using the effective interest method.

Bank loans are raised for support of the long term funding of the Group's operations. They are recognised initially at fair value, net of direct issue costs and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the income statement. Finance charges, including premiums payable or settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost less settlement payments.

Share Warrants

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share based payments are ultimately recognised as an expense in the income statement with a corresponding credit to other reserves.

Upon exercise of share warrants the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

When the share warrants have vested and then lapsed, the amount previously recognised in other reserves is transferred to retained earnings.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in a particular business (business segment) or conducting business in a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other economic environments.

Standards and interpretations in issue, not yet effective

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective. Except for IFRS 8, which will result in changes in the future as to how the Group's financial performance and financial position are disclosed, and IAS 1 (Revised 2007), which may affect the presentation of the financial statements, the Directors anticipate that the adoption of these other standards will not result in significant changes to the Group's accounting policies. The Group has commenced its assessment of the impact of IFRS 8 and IAS 1 (Revised 2007) on presentation and disclosure but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

IAS 1	Presentation of Financial Instruments (revised 2007)	Effective for annual periods beginning on or after 1 January 2009
IAS 23	Borrowing costs (revised 2007)	Effective for annual periods beginning on or after 1 January 2009
IAS 27	Consolidated Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3	Effective for annual periods beginning on or after 1 July 2009
IFRS 2	Share based payments	Effective for annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations - Comprehensive revision on applying the acquisition method	Effective for annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments	Effective for annual periods beginning on or after 1 January 2009
IFRIC 11	Group and Treasury Share Transactions	Effective for annual periods beginning on or after 1 March 2007
IFRIC 12	Service Concession Arrangements	Effective for annual periods beginning on or after 1 January 2008
IFRIC 13	Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements & their Interaction	Effective for annual periods beginning on or after 1 January 2008

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are as follows:

Trading properties

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the Group having regard to suitable external advice and knowledge of recent comparable transactions.

Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts. Further details with regard to the potential impairment of trade receivables are provided in note 13.

Investment property valuation

The Group uses the valuations performed by its independent valuers or the directors as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, anticipated purchaser costs and the appropriate discount rate. The valuer and directors also make reference to market evidence of transaction prices for similar properties. The impact of changes in property yields used to ascertain the valuation of investment properties are considered in note 17.

Critical judgements in applying the Group's accounting policies

The Group makes judgements in applying the accounting policies. The critical judgement that has been made is as follows:

Categorisation of trading properties

Properties held by the subsidiary company 3147398 Limited are classified as inventories, being properties held for resale. These properties generate rental income but are being actively marketed for sale and are therefore categorised as properties held for resale and carried at the lower of cost and net realisable value.

2. Segmented information

Primary reporting- business segment

The only material business that the Group has is that of investment in and trading of commercial properties. Turnover relates entirely to rental income from investment properties and sale of trading properties within the UK.

Secondary reporting format - geographical segment

The only material segment that the Group operates in is the UK.

3. Profit / (loss) on ordinary activities before taxation

The profit/(loss) on ordinary activities before taxation is stated after:

	2007	2006
	£000	£000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	14	24
Fees payable to the Company's auditor for other services:		
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	6	6
Tax Compliance	-	11
Other services	4	3
Depreciation of owned property and equipment	26	25
Operating lease payments	55	25

4. Directors and employees

Staff costs during the period were as follows:

	2007	2006
	£000	£000
Wages and salaries	369	190
Compensation for loss of office	-	80
Social security costs	45	13
	414	283

The average number of employees (including executive directors) of the Group during the period was three, all of whom were engaged in administration (2006: 3) and these employees are the key management personnel.

Directors' remuneration is detailed within the directors' remuneration report on page 8.

5. Finance income/finance costs

	2007	2006
	£000	£000
Finance income:		
Interest receivable	768	78
Finance costs:		
Interest payable on bank loans	(1,054)	(1,030)

6. Income tax expense/(credit)

	2007 £000	%	2006 £000	%
Result for the year before tax	1,777		(424)	
Tax rate	30%		19%	
Expected tax expense/(credit)	534	30.0	(80)	(19.0)
Adjustment for non deductible expenses relating to short term timing differences	19	1.1	34	8.0
Other non deductible expenses	5	0.3	25	5.9
Other adjustments	(10)	(0.6)	(69)	(16.2)
Actual tax expense/(credit)	548	30.8	(90)	(21.3)

Tax expense comprises:

	2007 £000	2006 £000
Current tax expense	306	-
Deferred tax	242	(90)
	548	(90)

7. Earnings/(loss) per share and net assets per share

The calculation of earnings/(loss) per share is based on the result for the year and on the weighted average number of shares in issue during the year. The calculation of diluted earnings/(loss) per share is based on the basic earnings/(loss) per share adjusted for the issue of shares on the assumed conversion of the convertible loan notes (see note 16) and the conversion of the warrants (note 19).

Reconciliations of the earnings / (loss) and the weighted average numbers of shares used in the calculations are set out below.

	2007 Earnings £'000	2007 Average number of shares	2007 Earnings per share	2006 Loss £'000	2006 Average number of shares	2006 Loss per share amount
Basic earnings/(loss) per share	1,229	340,714,327	0.36p	(334)	82,085,571	(0.41)p
Dilutive effect of conversion of convertible loan notes and share warrants		28,979,545				
Diluted earnings per share	1,229	363,693,372	0.34p			

The net assets per share is based on the net assets at 31 December 2007 of £35,286,000 (2006 : £34,057,000) divided by the shares in issue at 31 December 2007 and 2006 of 340,714,327.

8. Intangible fixed assets

	Goodwill
	£000
Gross carrying amount	
Cost	
At 1 January 2006 and 2007 and 31 December 2007	171
Accumulated impairment losses	
At 1 January 2006 and 2007 and 31 December 2007	-
Net book amount at 31 December 2006 and 31 December 2007	171

The directors have reviewed the carrying value of the goodwill and consider no impairment provision is required.

9. Investment properties

The carrying amount of investment properties for the periods presented in the consolidated financial statements as at 31 December 2007 is reconciled as follows:

	£'000
Carrying amount at 1 January 2006	10,130
Acquisition of subsidiary undertaking	2,400
Additions	2,210
Disposals	(411)
Revaluation	(142)
Carrying amount at 31 December 2006	14,187
Additions	23,067
Disposals	(1,400)
Revaluation	807
Carrying amount at 31 December 2007	36,661

The figures stated above for the gross carrying amount include valuations as follows:

	£000
At professional valuation	23,915
At directors' valuation	12,746
	36,661

All of the Group's investment properties are held as either freehold or long leasehold and are held for use in operating leases. No property interests are currently classified as investment properties which are held under operating leases. The Group uses the fair value model for all its investment properties.

9. Investment properties (continued)

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

	2007	2006
	£'000	£'000
Cost and net book amount at 31 December	35,508	13,621

In accordance with IAS40, the Group's policy is that investment properties should be valued by an external valuer at least every three years. The valuation at 31 December 2007 has been carried out by DTZ Chartered Surveyors on the basis of professional fair value on properties acquired during the year and by the directors on properties held at the beginning of the year.

Properties are valued on an open market basis based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specified asset. If this information is not available, alternative valuation methods are used such as recent prices on less active markets, or discounted cash flow projections.

The fair value of an investment property reflects, among other things, rental income from current leases and assumptions about future rental lease income based on current market conditions and anticipated plans for the property.

Rental income from investment properties in the year ended 31 December 2007 was £1,316,000 (2006 : £858,000) and direct operating expenses in relation to the those properties was £101,000 (2006 : £189,000). All of the investment properties were fully or partly let, except for one, Waterloo Street in Birmingham, which was acquired during November 2007 and no operating expenses were incurred in respect of that property.

10. Property, plant & equipment

	Leasehold improvements	Office equipment	Motor vehicles	Total
	£000	£000	£000	£000
Gross carrying amount				
At 1 January 2006 and 31 December 2006	70	42	10	122
Additions	-	4	-	4
At 31 December 2007	70	46	10	126
Depreciation and Impairment				
At 1 January 2006	20	14	2	36
Charge for the period	14	9	2	25
At 31 December 2006	34	23	4	61
Charge for the period	14	10	2	26
At 31 December 2007	48	33	6	87
Net book carrying amount				
At 31 December 2007	22	13	4	39
At 31 December 2006	36	19	6	61

11. Joint Venture

The aggregate amounts relating to the joint venture that have been included in the consolidated financial statements are as follows:

	2007	2006
	£000	£000
Non current assets	1,375	1,386
Non current liabilities	(1,047)	(1,062)
	328	324
Group's share of income of joint venture	89	66
Group's share of expenses, interest and tax of joint venture	(84)	(57)
Group's share of profit of joint venture	5	9

The joint venture relates to the Group's 50% share of Menin Works which is an unincorporated business which undertakes property investment.

12. Inventories

	2007	2006
	£000	£000
Properties held for trading	8,603	9,703

All properties held for trading are included at cost. The amount of inventories recognised as an expense in the year ended 31 December 2007 is £1,113,000 (2006 : £nil). All of the properties held for trading are pledged as security for bank loans.

13. Trade and other receivables

	2007	2006
	£000	£000
Trade receivables	275	198
Other receivables	859	148
Deferred tax asset	-	67
Prepayments and accrued income	43	75
	1,177	488

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

All of the Group’s trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £4,000 (2006: £nil) has been recorded accordingly.

In addition, some of the trade receivables not impaired are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2007	2006
	£000	£000
Not more than three months	10	8
More than three months but no more than six months	9	4
	19	12

14. Held to maturity investments

These relate to interest bearing deposit accounts which are charged as security for certain of the bank loans. They have fixed maturity dates, being the date of repayment of the related bank loans.

15. Trade and other payables

	2007	2006
	£000	£000
Trade payables	294	83
Other payables	213	96
Social security and taxation	106	6
Accruals and deferred income	682	584
Amount due under finance leases	-	1
	1,295	770

The fair value of the trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

16. Convertible debt

	2007	2006
	£000	£000
Convertible debt	325	325

Convertible debt represents unsecured convertible loan notes which may be converted into ordinary shares of 1p at any time after 10 June 2005 at the rate of 11p per share. The notes are redeemable at any time at the Group's option, and unless converted or redeemed earlier are repayable in full on 10 June 2009. No interest is payable on the notes. Any equity element of the convertible debt is regarded as immaterial and no adjustment has therefore been made to split out the conversion option.

17. Financial risk management objectives and policies

The Group's financial instruments are bank borrowings, cash, bank deposits and various items such as short-term receivables and payables that arise from its operations. The main purpose of these financial instruments is to fund the Group's investment strategy and the short-term working capital requirements of the business.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and property yield risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

Credit risk

The Group's principal financial assets are bank balances, held to maturity financial investments and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned. The credit risk for liquid funds and held to maturity financial investments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2007	2006
	£000	£000
Classes of financial assets-carrying amount		
Held to maturity financial assets	489	435
Cash and cash equivalents	4,866	26,889
Trade and other receivables	1,177	488
	6,532	27,812

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. External credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with credit worthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

In respect of trade and other receivables, the Group is not exposed to any significant risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short-term financial assets is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

17. Financial risk management objectives and policies (continued)

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Maturity of financial liabilities

The Group borrowings analysis at 31 December 2007 is as follows:

	2007	2006
	£000	£000
In less than one year:		
Bank borrowings	437	370
In more than one year but less than two years:		
Bank borrowings	415	404
Convertible debt	325	-
In more than two years but less than five years:		
Bank borrowings	1,269	2,924
Convertible debt	-	325
In more than five years		
Bank borrowings	12,865	13,463
	15,311	17,486
Deferred arrangement costs	(222)	(246)
	15,089	17,240
Split		
Current Liabilities - bank loans	437	370
Non current liabilities - bank loans	14,327	16,545
- convertible debt	325	325
	15,089	17,240

The directors do not consider the fair value of bank and other loans to be significantly different from the book value.

The bank loans include various covenants all of which had been satisfied at 31 December 2007.

Borrowing facilities

The Group has no undrawn committed borrowing facilities at 31 December 2007 (2006: £nil)

17. Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

The Group finances its operations through retained profit and the use of medium term borrowings. When medium term borrowings are used fixed rates of interest apply. When the Group places cash balances on deposit, rates used are fixed in the short term but for sufficiently short periods that there is no need to hedge against implied risk.

The interest rate exposure of the financial liabilities, excluding the convertible debt which is interest free, of the Group at 31 December 2007 was:

	Fixed interest	Expiry date	2007	2006
	%		£000	£000
Fixed until October 2019	6.230	October 2019	942	970
Fixed until January 2015	6.295	December 2019	1,693	1,810
Fixed until August 2028	6.550	August 2028	860	879
Fixed until January 2030	6.040	January 2030	6,526	7,481
Fixed until March 2030	6.270	March 2030	881	903
Fixed until May 2030	5.780	May 2030	1,544	2,539
Fixed until March 2031	5.470	March 2031	825	825
Variable rate/interest swap			1,715	1,754
			14,986	17,161
Deferred arrangement costs			(222)	(246)
			14,764	16,915

The following table illustrates the sensitivity of the net result after tax and equity to a potential change in interest rates of +/- one percentage with effect from the beginning of the year:

	2007	2007	2006	2006
	+ 1%	- 1%	+1%	-1%
	£'000	£'000	£'000	£'000
(Decrease)/increase in result after tax and equity	(17)	17	(18)	18

Property yield risk

The valuation of investment properties is dependent on the assumed rental yields. However, the impact on the net result after tax and equity is difficult to estimate as it inter relates with other factors affecting investment property values.

17. Financial risk management objectives and policies (continued)

Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders;
- To support the Group's stability and growth;
- To provide capital for the purpose of strengthening the Group's risk management capability; and
- To provide capital for the purpose of further investment property acquisitions.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The management regards total equity as capital and reserves, for capital management purposes.

18. Deferred taxation

Deferred tax arising from temporary differences and unused tax losses can be summarised as follows:

	2007		2006	
	Deferred tax asset	**Deferred tax liability**	Deferred tax asset	Deferred tax liability
	£'000	**£'000**	£'000	£'000
Non current assets				
Investment property	-	412	-	169
Unused tax losses	67	-	67	-
Offset	(67)	(67)	-	-
	-	345	67	169

No temporary differences resulting from investments in subsidiaries or interests in joint venture qualified for recognition as deferred tax assets or liabilities. Under the current fiscal environment, these entities are exempt from capital gains taxes. See note 6 for information on the Group's tax expense.

19. Share capital

	2007 Number of shares	2006 Number of shares	2007 £000	2006 £000
Authorised:				
Ordinary shares of 1p each	1,000,000,000	1,000,000,000	10,000	10,000
Allotted, issued and fully paid:				
Ordinary shares of 1p each	340,714,327	340,714,327	3,407	3,407

The directors were granted share warrants on 29 June 2006 in respect of 21,275,000 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable from two years from the date of the grant of the warrants and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant and are exercisable at 12p.

The fair value of these options of £121,000 was charged to the income statement in the year ended 31 December 2006.

20. Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £55,000 (2006: £17,000).

Non-cancellable operating lease commitments receivable:

	2007	2006
	£000	£000
Within one year	94	10
Later than one year but not later than five years	758	312
Later than five years	1,323	1,102
	2,175	1,424

Annual rent receivable by the Group under current leases from tenants is from commercial and retail property held.

21. Contingent liabilities

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

22. Capital commitments

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

23. Pension Scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2007 or 31 December 2006.

24. Related party transactions

During the period the Group paid agency fees of £97,000 on acquisition of investment properties to Bond Wolfe, a partnership in which P P S Bassi is a partner and rent and service charges of £55,000 to Bond Wolfe Estates Limited, a company in which P P S Bassi is a director and shareholder.

25. Post balance sheet events

On 23 January 2008 the Company raised £20 million by way of loan facilities from Bank of Scotland, which are secured on investment properties acquired during 2007. In addition on 28 March 2008 the Group acquired Bridge Street, Walsall for £2.4 million.

26. Transition to International Financial Reporting Standards

The transition from previous UK GAAP to IFRS has been made in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The Group's financial statements for the year ended 31 December 2007 and the comparative reporting for the year ended 31 December 2006 comply with all presentation, recognition and measurement requirements of IFRS applicable for accounting periods commencing on or after 1 January 2006.

The following reconciliations and explanatory notes thereto describe the effects of the transition for the year ended 31 December 2006 and at the transition date of 1 January 2006. All explanations should be read in conjunction with the IFRS accounting policies of the Group.

26. Transition to International Financial Reporting Standards (continued)

The audited profit and loss reported under UK GAAP for the year ended 31 December 2006 is reconciled to the IFRS income statement as follows:

		UK GAAP	Effect of transition to IFRS			IFRS
			Goodwill amortisation	Revaluation of investment property	Transfer of joint venture interest and tax	
		£000	£000	£000	£000	£000
Turnover	-Continuing operations	1,324	-	-	-	1,324
	-acquisitions	167	-	-	-	167
	-share of joint venture	(66)	-	-	-	(66)
		1,425	-	-	-	1,425
Administrative expenses		(875)	6	-	-	(869)
Surplus on disposal of investment property		45	-	-	-	45
Share of profit of joint venture		57	-	-	(48)	9
Net valuation deficits		(272)	-	130	-	(142)
Profit from operations		380	6	130	(48)	468
Finance costs		(1,030)	-	-	60	(970)
Finance income		90	-	-	(12)	78
Loss on ordinary activities before taxation		(560)	6	130	-	(424)
Taxation	-current	-	-	-	-	-
	-deferred	47	-	43	-	90
Net loss for the year		(513)	6	173	-	(334)

26. Transition to International Financial Reporting Standards (continued)

The audited balance sheet reported under UK GAAP as at 1 January 2006 is reconciled to the IFRS balance sheet as follows:

			As at 1 January 2006	
	Note	UK GAAP	Effect of transition to IFRS	IFRS
		£'000	£'000	£'000
Assets				
Non current assets				
Intangible assets	a & c	(786)	903	117
Investment properties		10,130	-	10,130
Property, plant and equipment		86	-	86
		9,430	903	10,333
Current assets				
Inventories		9,703	-	9,703
Trade and other receivables		189	-	189
Held to maturity investments	e	-	1,282	1,282
Cash and cash equivalents	e	2,347	(1,282)	1,065
		12,239	-	12,239
		21,669	903	22,572
Liabilities				
Current liabilities				
Bank loans		(1,127)	-	(1,127)
Trade and other payables		(713)	-	(713)
		(1,840)	-	(1,840)
Non-current liabilities				
Bank loans		(13,695)	-	(13,695)
Convertible debt		(325)	-	(325)
Deferred tax liabilities	d	-	(212)	(212)
		(14,020)	(212)	(14,122)
Total liabilities		(15,860)	(212)	(16,072)
Net assets		5,809	691	6,500
Equity				
Share capital		523	-	523
Share premium account		4,586	-	4,586
Capital redemption reserve		45	-	45
Revaluation reserve	b	708	(708)	-
Retained earnings	a,c & d	(53)	1,389	1,346
Total equity		5,809	691	6,500

26. Transition to International Financial Reporting Standards (continued)

The audited balance sheet reported under UK GAAP for the year ended 31 December 2006 is reconciled to the IFRS balance sheet as follows:

	Note	UK GAAP	Effect of transition to IFRS	IFRS
		£000	£000	£000
Assets				
Non current assets				
Intangible assets	a & c	(738)	909	171
Investment properties		14,187	-	14,187
Property, plant and equipment		61	-	61
Investment in joint venture		324	-	324
		13,834	909	14,743
Current assets				
Inventories		9,703	-	9,703
Trade and other receivables		488	-	488
Held to maturity investments	e	-	435	435
Cash and cash equivalents	e	27,324	(435)	26,889
		37,515	-	37,515
Total assets		51,349	909	52,258
Liabilities				
Current liabilities				
Bank loans		(370)	-	(370)
Provision for taxation		(22)	-	(22)
Trade and other payables		(770)	-	(770)
		(1,162)	-	(1,162)
Non current liabilities				
Bank loans		(16,545)	-	(16,545)
Convertible debt		(325)	-	(325)
Deferred tax liabilities	d	-	(169)	(169)
		(16,870)	(169)	(17,039)
Total liabilities		(18,032)	(169)	(18,201)
Net assets		33,317	740	34,057
Equity				
Share capital		3,407	-	3,407
Share premium account		29,472	-	29,472
Capital redemption reserve		45	-	45
Revaluation reserve	b	838	(838)	-
Other reserves		121	-	121
Retained earnings	a, c & d	(566)	1,578	1,012
Total Equity		33,317	740	34,057

26. Transition to International Financial Reporting Standards (continued)

The Group has modified its former balance sheet and income statement structure on transition to IFRS. The main changes may be summarised as follows with the impact on the balance sheet shown in brackets:

a) Goodwill is no longer amortised and is instead reviewed for impairment annually (1 January 2006: £nil, 31 December 2006: £6,000).
b) Gains on revaluation of investment properties, together with the associated deferred tax, are taken to the income statement. As a consequence the revaluation reserve is eliminated on transition (1 January 2006: £708,000, 31 December 2006: £838,000).
c) Under UK GAAP negative goodwill is carried in the balance sheet. Under IFRS the excess of assets over the fair value of consideration is recognised immediately in the income statement (1 January 2006 and 31 December 2006: £903,000).
d) Deferred taxation is fully provided on revaluation gains and losses (1 January 2006: £212,000, 31 December 2006: £169,000).
e) Held to maturity investments have been transferred to that category from cash and cash equivalents (1 January 2006: £1,282,000, 31 December 2006: £435,000).
f) The only material changes to the cash flow statement relate to its format.

REAL ESTATE INVESTORS PLC

COMPANY STATUTORY FINANCIAL STATEMENTS (PREPARED UNDER UK GAAP)

FOR THE YEAR ENDED 31 DECEMBER 2007

COMPANY NUMBER 5045715

Statement of directors' responsibilities

The directors are responsible for preparing the Company financial statements ("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 have elected 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 these 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 UK 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 auditors are 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.

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF REAL ESTATE INVESTORS PLC

We have audited the parent Company financial statements (the "financial statements") of Real Estate Investors Plc for the year ended 31 December 2007 which comprise the principal accounting policies, the balance sheet and notes 1 to 12. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Real Estate Investors Plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Director's responsibilities for preparing the Annual Report and 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 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 financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained within 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, the Directors' Report, the Corporate Governance Statement and the Director's Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM

30 April 2008

Accounting policies
The financial statements have been prepared in accordance with the Companies Act 1985 and UK accounting standards except as noted below in respect of the true and fair override in respect of investment properties.

The Company's principal accounting policies have remained unchanged from the previous year.

Accounting convention
The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties.

Turnover
Turnover, which excludes value added tax, comprises rental income which is recognised evenly over the term of the lease to which it relates.

Investment properties
Certain of the Company's properties are held for long term investment and are included in the balance sheet on the basis of open market value in accordance with SSAP 19. The surpluses or deficits on annual revaluations of such properties are transferred to the revaluation reserve, unless a deficit results in a revaluation below cost or is a permanent deficit in which case the amount of the deficit is charged to the profit and loss account. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not depreciated where the unexpired term is over 20 years.

This policy represents a departure from the Companies Act 1985 which require depreciation to be provided on all fixed assets. The directors consider this policy is necessary in order that the financial statements give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the annual valuation and the amount, which might otherwise be shown, cannot be separately identified or quantified.

Depreciation
Depreciation is calculated to write down the cost to residual value of all tangible fixed assets, excluding investment properties, by equal instalments over their expected useful economic lives over the following periods:

Leasehold improvements:	length of lease
Office equipment:	four years
Motor vehicles:	four years

Investments
Investments in subsidiary undertakings are recorded at cost less provision for impairment.

Financing costs
The costs of arranging finance for the Company are written off to profit and loss account over the terms of the associated finance using the effective interest method.

Operating leases
Annual rentals under operating leases are charged to the profit and loss account as incurred.

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

Deferred taxation is not provided on gains recognised on revaluing investment properties. Unprovided deferred taxation will crystallise on the sale of assets at their balance sheet value.

Financial instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities within the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Share warrants
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share based payments are ultimately recognised as an expense in the income statement with a corresponding credit to other reserves.

Upon exercise of share warrants the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

When the share warrants have vested and then lapsed, the amount previously recognised in other reserves is transferred to retained earnings.

BALANCE SHEET

As at 31 December 2007

	Note	2007	2006
		£000	**£000**
Fixed assets			
Tangible assets	1	30,193	8,516
Investments	2	5,204	5,204
		35,397	13,720
Current assets			
Debtors	3	1,485	690
Cash at Bank		4,714	26,688
		6,199	27,378
Creditors: amounts falling due within one year	4	(3,575)	(2,430)
Net current assets		2,624	24,948
Total assets less current liabilities		38,021	38,668
Creditors: amounts falling due after more than one year			
Convertible debt		(325)	(325)
Other creditors		(4,893)	(5,941)
	5	(5,218)	(6,266)
Net assets		32,803	32,402
Capital and reserves			
Ordinary share capital	7	3,407	3,407
Share premium account	8	29,472	29,472
Capital redemption reserve	8	45	45
Other reserves	8	121	121
Revaluation reserve	8	2,173	319
Profit and loss account	8	(2,415)	(962)
Shareholders' funds		32,803	32,402

These financial statements were approved by the Board of Directors on 30 April 2008

Signed on behalf of the Board of Directors

P H Lewin – Chairman

M H P Daly – Finance Director

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

1. Tangible fixed assets

	Investment properties £000	Leasehold improvements £000	Office equipment £000	Motor Vehicles £000	Total £000
Cost or valuation:					
At 1 January 2007	8,455	70	42	10	8,577
Additions	23,066	-	4	-	23,070
Disposals	(1,400)	-	-	-	(1,400)
Revaluation	33	-	-	-	33
At 31 December 2007	30,154	70	46	10	30,280
Accumulated depreciation					
At 1 January 2007	-	34	23	4	61
Charge for the period	-	14	10	2	26
At 31 December 2007	-	48	33	6	87
Net book amount					
At 31 December 2007	30,154	22	13	4	30,193
At 31 December 2006	8,455	36	19	6	8,516

The figures stated above for cost or valuation include valuations as follows:

	Investment Properties	
	2007	2006
	£000	£'000
At valuation	**30,154**	8,455

All of the Company's investment properties are held as either freehold or long leasehold and are held for use in operating leases.

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

	Investment Properties	
	2007	2006
	£'000	£000
Cost and net book amount at 31 December 2007	**27,981**	8,629

In accordance with SSAP 19, the Company's policy is that investment properties should be valued by an external valuer at least every three years. The valuation at 31 December 2007 has been carried out by DTZ Chartered Surveyors on the basis of fair value on properties acquired during the year and by the directors on properties held at the beginning of the year.

No provision has been made for deferred taxation, in accordance with FRS 19, for the estimated corporation tax that would be payable on disposal at these valuations.

2. Fixed asset investments

	Investment in subsidiary undertakings	
	2007	2006
	£000	£000
Company		
Cost		
At 1 January	5,204	4,155
Additions	-	1,049
At 31 December	5,204	5,204

At 31 December 2007 the Company wholly owned the following subsidiaries:

Name	**Principal Activity**	**Country of incorporation**
Boothmanor Limited	Property investment	England and Wales
Eurocity (Crawley) Limited	Property investment	England and Wales
3147398 Limited	Property trading	England and Wales
Rightforce Limited	Property investment	England and Wales

3. Debtors

	2007	2006
	£000	£000
Trade debtors	201	49
Amounts owed by subsidiary undertakings	410	423
Other debtors	789	137
Deferred tax asset	67	67
Prepayments and accrued income	18	14
	1,485	690

The deferred tax asset relates to losses carried forward of £355,000 (2006:£355,000) at a tax rate of 28% (2006: 30%). There is sufficient expectation of future taxable profits which will be available to offset these losses.

4. Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Bank loans	77	90
Amounts owed to subsidiary undertakings	2,394	1,945
Trade creditors	285	71
Other creditors	109	103
Corporation tax	151	-
Social security and taxation	102	2
Accruals and deferred income	457	218
Amounts due under finance leases	-	1
	3,575	2,430

Bank loans are secured against the Company's property assets.

5. Creditors: amounts falling due after more than one year

	2007	2006
	£000	£000
Bank loans	4,974	6,026
Convertible debt	325	325
Less: deferred arrangement costs	(81)	(85)
	5,218	6,266

Bank loans are secured against the Company's property assets.

Convertible debt represents unsecured convertible loan notes which may be converted into ordinary shares of 1p at any time after 10 June 2005 at the rate of 11p per share. The notes are redeemable at any time at the Company's option, and unless converted or redeemed earlier are repayable in full on 10 June 2009. No interest is payable on the notes. Any equity element of the convertible debt is regarded as immaterial and no adjustment has therefore been made to split out the conversion option.

6. Deferred tax

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value in accordance with FRS 19. The total amount unprovided at an estimated tax rate of 28%, for the year ended 31 December 2007 is £608,000 (2006: £96,000).

7. Share capital

	2007 Number of shares	2006 Number of shares	2007 £000	2006 £000
Authorised:				
Ordinary shares of 1p each	1,000,000,000	1,000,000,000	10,000	10,000
Allotted, called up ad fully paid				
Ordinary shares of 1p each	340,714,327	340,714,327	3,407	3,407

The directors were granted share warrants on 29 June 2006 in respect of 21,275,000 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable from one year from the date of the grant of the warrants and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant and are exercisable at 12p.

The fair value of these options of £121,000 has been charged to the profit and loss account.

8. Movement in reserves

	Share premium account £000	**Capital redemption Reserve £000**	**Other reserves £000**	**Revaluation reserve £000**	**Profit and loss account £000**	**Total £000**
At 1 January 2007	29,472	45	121	319	(962)	28,995
Loss for the period	-	-	-	-	(1,453)	(1,453)
Surplus on revaluation of investment properties	-	-	-	1,854	-	1,854
At 31 December 2007	29,472	45	121	2,173	(2,415)	29,396

9. Profit for the financial year

The Company has taken advantage of section 230 (4) of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £1,453,000 (2006: £515,000).

Auditors remuneration incurred by the Company during the year for audit services totalled £6,000 (2006: £6,000), and for tax compliance services totalled £nil (2006: £11,000).

10. Directors and employees remuneration

Details of Directors' remuneration is disclosed within the Directors' Remuneration Report on page 8.

11. Contingent liabilities

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

12. Capital Commitments

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

Notice is hereby given that the 2008 Annual General Meeting of Real Estate Investors Plc will be held at West Plaza, 8th Floor, 144 High Street, West Bromwich, West Midlands, B70 6JJ on 16 July 2008 at 11:00 am for the following purposes:

As ordinary business

1. To receive and if thought fit adopt the audited financial statements for the year ended 31 December 2007, and the reports of the directors and the auditor thereon.
2. To re-elect P H Lewin, who retires by rotation in accordance with the Company's Articles of Association, as director.
3. To reappoint Grant Thornton UK LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the directors to fix their remuneration.

As special business

4. That the directors be and they are hereby generally and unconditionally authorised (in substitution for all previous powers granted there under) to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) (the Act) up to a aggregate nominal amount of £1,135,000 provided that this authority shall expire on the earlier of the conclusion of the next Annual General Meeting to be held in 2008 or 15 months after the passing of this resolution.
5. That the subject to the passing of the previous resolution the directors be and are herby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

   i. to the allotment of equity securities in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly may be) to the respective Ordinary shares held by them and,
   ii. to the allotment (other than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £340,700,

provided that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the directors may allot equity securities in pursuant of such offer or agreement as if the power had not expired.

By order of the Board

MHP Daly
Secretary
30 April 2008

Registered Office:
West Plaza, 8th Floor
High Street, West Bromwich
B70 6JJ

Notes:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy card in enclosed. To be valid, the proxy card must be lodged with the Company's registrars, Capita IRG, no later than 48 hours before the time fixed for the meeting. Completion of a form of proxy does not preclude members from attending the meeting and voting in person if they wish.
Copies of the Company's memorandum and articles of association, directors' service contracts and the registrar of directors' interests in the shares of the company will be available for inspection at West Plaza, 8th Floor, 144 High Street, West Bromwich, West Midlands, B70 6JJ during normal business hours on weekdays (public holidays excepted) from the date of this Notice until the date of the Meeting and at the place of the Meeting from 15 minutes before the start of the Meeting until the conclusion of the Meeting
The Company, pursuant to Regulation 41(1) of the Uncertified Securities Regulations 2001, specified that only those shareholders registered in the register of members of the Company at close of business on 14 July 2008 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.