REI

REAL ESTATE INVESTORS PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

REAL ESTATE INVESTORS PLC

FINANCIAL STATEMENTS

For the year ended 31 December 2010

Company Registration Number:	5045715
Registered Office:	Cathedral Place, 3rd Floor 42-44 Waterloo Street Birmingham B2 5QB
Directors:	J R A Crabtree: Chairman J J Jack: Non Executive Deputy Chairman W Wyatt: Non Executive Director P P S Bassi CBE: Chief Executive M H P Daly: Finance Director
Secretary:	M H P Daly
Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditor 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:	Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
Bankers:	Lloyds Banking Group 55 Temple Row Birmingham B2 5LS
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

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Results for the year ended 31 December 2010

- Contracted rental income £4.0 million (2009: £3.3 million) – up 20%
- Rental income £3.3 million (2009: £3.2 million) – up 1.8%
- Gross property assets valued at £56.5 million (2009: £54.8 million) – up 3%
- Investment property assets £50.5 million (2009: £48.0 million) – up 5%
- Cash at bank of £11.8 million (2009: £10.8 million) – up 9.2%
- Net assets of £32.3 million (2009: £27.3 million) – up 18.3%
- Loss on valuation of interest rate swaps of £1.2 million (2009: gain £0.8 million)
- Loss before tax of £5.6 million (2009: profit of £4.3 million)
- Loss before tax excluding net property valuation and financial instrument provisions of £292,000 (2009: profit of £854,000)
- Loss on revaluation of investment properties of 7.5% or £4.1 million (2009: gain £2.7 million)
- Total acquisitions of property in the year £6.7 million
- Gearing 84%
- Loan to value 48% - net of cash
- £9.7 million fundraising in February 2010: £6.7 million invested during the year and £3.1 million post-year end

Introduction

Firstly, I am very pleased to be reporting Real Estate Investors Plc's ("REI") results for the year ended 31 December 2010, a year which saw increases in our contracted rental income and significant investments in opportunities which met our criteria.

Despite varying degrees of optimism seen in early 2010, the economic environment remains fragile, and the last quarter of 2010 and the early part of 2011 have raised further concerns of a renewed recession. While London investment property values are buoyant, driven largely by institutional and overseas capital, the UK property sector as a whole is not exempt from the economic backdrop. Valuations in UK regions remain depressed, largely due to the lack of bank finance, leading to very limited transactions and comparable evidence being predominantly gathered from distressed sales.

Our purchases plus other opportunities that we anticipate securing, together with rising rental values, will provide the potential for significant capital gains and surplus cash flow in the short to medium term, establishing REI as a highly respected regional property investment company, that will benefit substantially once market conditions normalise.

The year in review

The results for the year ended 31 December 2010 reflect an increase in our contracted rental income from £3.3m net (2009) to £4.0m net. We raised £9.7m in February 2010 and invested approximately £6.7m during the year and a further £3.1m since the year end.

The lack of transactions in the Midlands has limited comparable evidence available to valuers and has contributed to our portfolio being revalued downwards by 7.5% despite our own active asset management and improving rental income. Our 2010 loss is dominated by the revaluation and interest rate swap cost. The £1.2m loss on the market value of our swap is an accounting provision and not a cash loss, and has already improved by £450,000 by the end of February 2011.

Dividend

We remain committed to paying a dividend, and will do so as soon as our capital is invested and our contracted rental income converts to providing REI with a cash surplus.

Current trading and prospects

Enquiries and new lettings have improved significantly and as the year progresses we anticipate more opportunities that fit our criteria, to come predominantly from motivated sellers, financial institutions and insolvency practitioners. Evidence of this has already been seen since the year end. We are mindful that in the short to medium term, we may be creating comparable evidence that may impact on the valuations of our own portfolio. We believe we are well placed to capitalise on opportunities with Real Estate Investors established as a respected regional investor. We are confident that we will see capital growth returned to our portfolio once market conditions normalise.

Finally, on behalf of my colleagues I extend our thanks to our staff and advisers for their continued hard work and support.

John Crabtree OBE
Chairman
Date: 4 April 2011

Results for the year ended 31 December 2010

The economic environment remains fragile, yet despite all the challenges of 2010 and the continual deferral of decision-making by tenants, we were able to increase our contracted rental income from £3.3 million net per annum (2009) to £4.0 million net (2010). We raised £9.7 million net from shareholders in February 2010 and we invested approximately £6.7 million in opportunities that met our criteria. These included prime office investment at 75-77 Colmore Row in August 2010 (£4.5 million at a net initial yield of 8.5%, let to PricewaterhouseCoopers) and Rugeley town centre in December 2010 (£900,000 at a net initial yield of 8.35% with tenants including WH Smith and Claire's Accessories), plus a vacant property. Additionally, we acquired a number of small development sites and public houses for planning gain and we have secured planning and banked capital growth.

Since the year end we have acquired Kingston House in West Bromwich for £3.1 million at a net initial yield of 11%, the principal tenant being the Primary Care Trust on a lease expiring in 2019. With the benefit of this purchase and other lettings contracted in early 2011, our current contracted income has risen to £4.5 million net per annum. Fully let, our estimated rental value from the existing portfolio is £5.8 million per annum.

Whilst London investment property values are extremely buoyant and driven by institutional and overseas capital, valuations in UK regions remain depressed, largely due to the lack of bank finance and very limited transactions and comparable evidence. In our focus area of Birmingham and the wider West Midlands, we have been one of very few active investors and believe we have acquired assets favourably. However, these acquisitions are almost the only comparable evidence available to valuers, and have contributed to our portfolio falling in value by 7.5%, despite our active asset management and improving rental income.

Occupancy and sales

We have experienced the loss of £557,750 of rental income during the year, largely from our historic non-Midlands portfolio. Some of these properties are now under offer to new tenants and in legals, providing positive income replacement. In the short term and until these lettings are contracted, we have seen valuation reductions, though we believe these will recover once new leases are completed. It is our intention to continue to reduce our non-Midlands holdings, at a surplus to existing valuations.

Letting demand has been erratic, but is gradually improving. Existing tenants generally are renewing rather than expending capital on relocating. There is also evidence of tenants taking additional space, as market and economic conditions support the growth of their business, as seen at York House in Birmingham city centre where the Consumer Credit Council have doubled their occupancy with us. We also anticipate renewed demand from employment training organisations who are securing government contracts to retrain the unemployed. We have also seen a renewed level of interest from corporates in Birmingham city centre, and again have lettings agreed, in legals, or in advanced discussions. New tenants this year include Tesco's, Subway, Greenberg Maher, WH Smiths, PricewaterhouseCoopers and Claire's Accessories.

Sales of £1.1 million during the year included properties in Maidstone and Tipton and both transactions realised a surplus. I anticipate further sales this year from sites that have achieved planning approval and properties that are fully let, and no longer provide us with further asset management potential. The Directors expect that sales in the short to medium term will generate healthy uplifts against existing valuations.

Opportunities

We expect the lack of bank finance to continue to be a feature of the market place. However, we anticipate a greater number of transactions, prompted by banks not renewing facilities and distressed sales, from private and quoted companies who are unable to refinance. Furthermore, the Directors believe that banks will embark upon a de-leveraging process during 2011-2012 and beyond. Another feature of the market place will be government departments and local authorities selling assets to raise capital. Where opportunities match our investment criteria, we will act to add assets to our portfolio. We are well placed to capitalise on these opportunities having established REI as a respected regional property investment company, recognised by agents, advisors and vendors as a proven counterparty.

With the benefit of our cash reserves and bank facilities, we will continue to acquire opportunistically, though we are mindful that in the short to medium term, we may be creating comparable evidence that may impact on our own portfolio. During the next 12 to 24 months our focus will be income generation from our existing portfolio and further acquisitions. The portfolio will continue to be risk averse, with no reliance on any single tenant or property. We firmly believe that we will see positive capital growth from rising rental income, lettings, acquisitions, lease renewals, asset management and from market normalisation.

Banking

We have existing bank facilities with Lloyds Banking Group, Handelsbanken, Nationwide and Aviva. We confidently anticipate securing facility renewals as they become due in 2011. REI Plc remains well capitalised with excellent banking support.

Summary

The next 12 to 24 months will remain challenging, yet we remain well positioned to capitalise on improving occupancy, capital values, lease renewals and trading opportunities. Additionally, the probability of rising interest rates in the future will provide us with a significant improvement on the market value of our hedge which has already recovered substantially since the year end by £450,000 at the end of February 2011.

We are very aware of short term fluctuations in property values, and their impact on our results. REI views the downturn as an opportunity and we have already demonstrated our ability to secure assets favourably. We remain committed to building a significant property investment business of substance and depth, with positive revenues and capital growth.

Paul Bassi CBE DL D.UNIV
Chief Executive
Date: 4 April 2011

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2010.

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 and chief executive's statements.

Key Performance Indicators

Create sustainable long-term returns for shareholders
- To sustain real growth in earnings per share.
- Annual revenue profit to exceed budgeted target
- Increase net assets per share

The above continue to be the key performance indicators of the Group, but last year was a year of unprecedented economic, bank and property turmoil which meant that these targets were not achieved. In our focus area of Birmingham and the wider West Midlands, we have been one of very few active investors and believe we have acquired assets favourably. However, these acquisitions are almost the only comparable evidence available to valuers, and have contributed to our portfolio being downgraded by 7.5%, despite our active asset management and improving rental income.

Maximise the returns from the investment portfolio
Continue the Group's strategy of finding the right property and creating the investment value through refurbishment, etc. 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.

Risk management policies and objectives
The Group's principal financial instruments comprise cash at bank, bank loans and derivatives. The main purpose of these financial instruments is to fund the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group's objectives are to use financial instruments to reduce the cost of capital while avoiding exposing the Group to excessive financial risk and providing a sufficient element of certainty in respect of financial outflows. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. Full details of the Group's financial instruments and their use in managing the financial risks facing the Group are provided in note 15.

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

J R A Crabtree	Chairman – Non-Executive
P H Lewin	Non-Executive Director
J J Jack	Deputy Chairman – Non-Executive
W Wyatt	Non-Executive Director
P P S Bassi CBE	Chief Executive
M H P Daly	Finance Director

J R A Crabtree and W Wyatt were appointed directors on 28 June 2010 and P H Lewin retired from the board on 31 December 2010.

M H P Daly, J Crabtree and W Wyatt will retire and submit themselves 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 21 March 2011.

	Number	%
Caledonia Investments Plc	139,977,459	28.22
P P S Bassi	90,000,000	18.14
Henderson Global Investors	41,769,230	7.82
Blackrock Investment Management	37,138,846	7.49
Friends Provident International	27,000,000	5.44
Artemis Investment Management	26,538,461	5.35
Ruffer	24,728,024	4.99
Reech CBRE Alternative Real Estate	15,384,615	3.10

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 2010 trade payables represented 57 days (2009: 56 days) purchases based on the total purchases for the year.

Charitable donations
The Group made no charitable donations during the period (2009: £nil).

Post balance sheet events
On 25 February 2011 the company completed the acquisition of Kingston House, West Bromwich for £3.1 million.

Statement of directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of 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.

Annual General Meeting
The Annual General Meeting will be held at Cathedral Place, 3rd Floor, 42-44 Waterloo Street, Birmingham, B2 5QB on 28 June 2011 at 11am.

Auditor
Grant Thornton UK LLP offer themselves for re-appointment as auditor in accordance with Section 489 of the Companies Act 2006.

BY ORDER OF THE BOARD

M H P Daly

Secretary

Date: 4 April 2011

Company No 5045715

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 June 2008. 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 three 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 two non-executive directors, J R A Crabtree and J J Jack, 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. These enquiries considered the following:

- the significant cash balances the Group holds and the low levels of historic and projected operating cashflows
- any property purchases will only be completed if cash resources or loans are available to complete these purchases
- the Group's bankers have indicated their continuing support for the Group
- the Group's £20 million facility with Lloyds Banking Group is due for renewal in May 2011 and the bank has confirmed it is looking to continue its support beyond this date subject to the conclusion of appropriate independent diligence.

For this reason, the directors 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 two non-executive directors, J R A Crabtree and W Wyatt, 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 2010 was as follows:

	Salary	Salary in lieu of benefits	Fees	Employers' national insurance contributions	2010 Total	2009 Total	Share options 2010	Share options 2009
	£000	£000	£000	£'000	£000	£000	Number	Number
P H Lewin	-	-	22	-	22	22	-	-
J J Jack	-	-	22	-	22	17	-	-
P P S Bassi	300	75	-	48	423	413	1	-
M H P Daly	180	45	-	29	254	206	1	-
J Crabtree	-	-	12	-	12	-	-	-
W Wyatt	-	-	11	-	11	-	-	-
	480	120	67	77	744	658	2	-

Salary in lieu of benefits is paid in recognition for the fact that the Directors do not receive any benefits in kind.

The Group does not make pension contributions on behalf of the Directors.

No bonuses have been awarded to the directors.

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 directly 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 from two years from the date of the grant of the option 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 grant, in proportion to their shareholding and are exercisable at 12p per share.

Long Term Incentive Plan

At the Annual General Meeting held in June 2010 a resolution was passed approving the adoption of a new Long Term Incentive Plan (LTIP). The proposed LTIP is designed to promote retention and incentivise the executive directors to grow the value of the Group and to maximise returns:

- The LTIP has a ten year life form January 2010 to December 2019.
- Awards become payable to the extent that shareholder return defined as net asset value ("NAV") growth adjusted for dividends and other returns to shareholders exceed a compound growth rate of 10% per annum (Hurdle Return).
- If shareholder returns exceed the Hurdle Return, 20% of such excess will be payable in Ordinary shares under the LTIP.
- Participants will have the opportunity to take up to 30% of the amount accrued under the LTIP at the end of year three, with the portion able to be taken up each year thereafter increasing by 10% each year and the full amount (100%) being available only after the end of the ten year period.
- Only executive directors are eligible to take participate in the LTIP.
- The baseline for the commencement of the LTIP is the NAV per Ordinary share at 31 December 2009 adjusted for the impact of the placing of Ordinary shares in February 2010.
- Subject to the time limits set out above, awards may be taken up in the 20 business day period following the announcement of full year or interim results.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the higher of NAV per share as reported in the latest full year results and the weighted average mid-market closing price for the first 20 business days following announcement of the latest full year results. On issue, the Ordinary shares will rank pari passu with the existing issued Ordinary shares.
- The number of Ordinary which can be issued under the LTIP is limited to 10% of the Company's then issued share capital. Any excess earned above this level will be paid in cash provided that the remuneration committee consider it prudent to do so at that stage, otherwise payment will be deferred until the remuneration committee deem it prudent.
- The remuneration committee may from time to time make any alteration to the plan which it thinks fit, including for legal, regulatory or tax reasons, in order to ensure the smooth workings of the plan in line with its objectives.

The LTIP was implemented in December 2010. On 3 December 2010, the Group granted each of P P S Bassi and M H P Daly an option under the scheme which entitles them to subscribe for or acquire ordinary shares in the company at a price of 1p per share (in the case of new ordinary shares) or 0p per share (in the case of a transfer of existing shares). The grant and exercise of the options is subject to the rules of the LTIP and cannot be exercised unless the relevant performance criteria are met, as discussed above.

The number of ordinary shares to be awarded under the option will be determined at the relevant trigger date based on the net asset value of the Group and will be calculated with reference to the prevailing net asset value per share or market price per share, whichever is higher. The first trigger date is 1 January 2013 and subsequent trigger dates occur annually thereafter until 1 January 2020.

Long Term Incentive Plan (continued)

No expense has been recognised in respect of the LTIP for the year ended 31 December 2010 as the Directors do not consider it to be material to the financial statements.

APPROVED BY THE BOARD OF DIRECTORS – J R A Crabtree
Chairman, Remuneration Committee
Date: 4 April 2011

We have audited the consolidated financial statements of Real Estate Investors plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of Real Estate Investors plc for the year ended 31 December 2010.

Mark Taylor
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

Date: 4 April 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010**	2009
		£000	£000
Revenue		**4,020**	3,244
Cost of sales		**(1,251)**	544
Gross profit		**2,769**	3,788
Administrative expenses		**(1,340)**	(1,185)
Share of profit/(loss) of joint venture	11	**9**	(8)
Surplus on sale of investment property		**186**	-
Net (loss)/gain on valuation of investment properties	9	**(4,119)**	2,659
(Loss)/profit from operations		**(2,495)**	5,254
Finance income	5	**502**	570
Finance costs	5	**(2,418)**	(2,311)
(Loss)/gain on financial liabilities at fair value through profit and loss	16	**(1,178)**	832
(Loss)/profit on ordinary activities before taxation	3	**(5,589)**	4,345
Income tax credit/(expense)	6	**801**	(1,224)
Net (loss)/profit after taxation and total comprehensive income		**(4,788)**	3,121
Total and continuing (loss)/earnings per ordinary share			
Basic	7	**(1.01)p**	0.91p
Diluted	7	**(1.01)p**	0.85p

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Share premium account	Capital redemption reserve	Other Reserves	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2009	3,407	29,472	45	121	(8,846)	24,199
Profit for the year and total comprehensive income	-	-	-	-	3,121	3,121
At 31 December 2009	3,407	29,472	45	121	(5,725)	27,320
Issue of new shares	1,553	-	-	-	-	1,553
Premium on issue of shares	-	8,542	-	-	-	8,542
Expenses of share issue	-	(360)	-	-	-	(360)
Transactions with owners	1,553	8,182	-	-	-	9,735
Loss for the year and total comprehensive income	-	-	-	-	(4,788)	(4,788)
At 31 December 2010	**4,960**	**37,654**	**45**	**121**	**(10,513)**	**32,267**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010	2009
		£000	£000
Assets			
Non current			
Intangible assets	8	**171**	171
Investment properties	9	**50,478**	48,054
Property, plant and equipment	10	**40**	3
Deferred tax	17	**3,310**	2,509
		53,999	50,737
Investment in joint venture	11	**103**	55
		54,102	50,792
Current			
Inventories	12	**6,053**	6,754
Trade and other receivables	13	**3,707**	2,671
Cash and cash equivalents		**11,822**	10,831
		21,582	20,256
Total assets		**75,684**	71,048
Liabilities			
Current			
Bank loans	15	**(22,131)**	(3,195)
Provision for current taxation		**(118)**	(149)
Trade and other payables	14	**(1,941)**	(1,942)
		(24,190)	(5,286)
Non current			
Bank loans	15	**(16,810)**	(37,203)
Liabilities at fair value through profit and loss	15	**(2,417)**	(1,239)
		(19,227)	(38,442)
Total liabilities		**(43,417)**	(43,728)
Net assets		**32,267**	27,320

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2010

	Note	2010 £000	2009 £000
Equity			
Share capital	18	**4,960**	3,407
Share premium account		**37,654**	29,472
Capital redemption reserve		**45**	45
Other reserves		**121**	121
Retained earnings		**(10,513)**	(5,725)
Total Equity		**32,267**	27,320
Net assets per share	7	**6.5p**	8.0p

These financial statements were approved by the Board of Directors on 4 April 2011.

Signed on behalf of the Board of Directors

J R A Crabtree – Chairman

M H P Daly – Finance Director

Company No 5045715

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

REAL ESTATE INVESTORS PLC

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2010

	Note	2010	2009
		£000	£000
Cash flows from operating activities			
(Loss)/profit after taxation		**(4,788)**	3,121
Adjustments for:			
Depreciation		**7**	8
Net loss/(gain) on valuation of investment property		**4,119**	(2,659)
Surplus on sale of investment property		**(186)**	-
Share of (profit)/loss of joint venture		**(9)**	8
Finance income		**(502)**	(570)
Finance costs		**2,418**	2,311
Loss/(gain) on financial liabilities at fair value through profit and loss		**1,178**	(832)
Income tax (credit)/expense		**(801)**	1,224
Decrease/(increase) in inventories		**701**	(875)
Increase in trade and other receivables		**(1,036)**	(1,325)
Decrease in trade and other payables		**(1)**	(384)
		1,100	27
Interest paid		**(2,418)**	(2,311)
Income taxes paid		**(31)**	-
Net cash from operating activities		**(1,349)**	(2,284)
Cash flows from investing activities			
Purchase of investment properties		**(6,730)**	(2,787)
Purchase of property, plant and equipment		**(44)**	-
Proceeds from sale of investment property		**373**	-
Investment in joint venture		**(39)**	(38)
Interest received		**502**	570
		(5,938)	(2,255)
Cash flows from financing activities			
Proceeds from issue of share capital		**9,735**	-
Proceeds from bank loans		**-**	4,980
Payment of bank loans		**(1,457)**	(654)
Payment of convertible debt		**-**	(325)
		8,278	4,001
Net increase/(decrease) in cash and cash equivalents		**991**	(538)
Cash and cash equivalents at beginning of period		**10,831**	11,369
Cash and cash equivalents at end of period		**11,822**	10,831

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 financial instruments held at fair value through profit and loss, and in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. Separate financial statements of Real Estate Investors PLC (the Company) have been prepared, on pages 42 to 53, under the historical cost convention except for the revaluation of investment properties and in accordance with applicable accounting standards under UK GAAP.

The principal accounting policies of the Group are set out below and are consistent with those applied in the 2009 financial statements.

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. These enquiries considered the following:

- the significant cash balances the Group holds and the low levels of historic and projected operating cash outflows
- any property purchases will only be completed if cash resources or loans are available to complete these purchases
- the Group's bankers have indicated their continuing support for the Group
- the Group's £20 million facility with Lloyds Banking Group is due for renewal in May 2011 and the bank has confirmed it is looking to continue its support beyond this date subject to the conclusion of appropriate independent diligence.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Business combinations

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 acquisition method. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognised identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value of consideration transferred, the recognised amount of any non-controlling interest in the acquire and the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

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

Prior to 1 January 2010, business combinations were accounted under the previous version of IFRS3 in accordance with which acquisition costs were capitalised within the consideration for the transaction and contingent consideration was recognised only once its payment was probable. Any changes in contingent consideration were recognised as an adjustment to goodwill.

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/(loss) of joint venture" in the consolidated statement of comprehensive income and therefore affect the net results of the Group.

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 from the Group's perspective.

Income recognition

Revenue is recognised to the extent that it is probable that economic benefits 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. Revenue is, therefore, recognised when legal title passes to the purchaser.

Impairment

The Group's goodwill, plant and equipment, leasehold improvements 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 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 asset's or cash-generating unit's 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 or 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 change 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 initially recognised at cost including direct transaction costs.

Investment properties are subsequently 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 profit or loss in the period in which they arise.

Leasehold improvements and office equipment

Leasehold improvements and office equipment 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

Residual values and useful lives are reassessed annually.

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 sale. Any provisions to impair trading properties below cost are reversed in future periods if market conditions subsequently support a higher fair value but only up to a maximum of the original cost. 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 as an expense 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 statement of financial position 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 year end date. They are calculated according to the tax rates and tax laws enacted and substantively enacted at the year end 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, or on initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. 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 income taxes on investment properties relates to temporary differences between the carrying value of these assets and their tax base. In calculating deferred income taxes on investment properties the Directors are required to consider the manner in which the value of the properties will be recovered, whether through use or through sale. The Directors consider that the value of investment properties (which are held to earn rentals and for capital appreciation) will be recovered through a mixture of rental income and sale. The Directors then consider whether there would be any deductions which could be made against future sales proceeds. The deferred income tax represents the tax effect of the difference between the valuation of the investment property and its tax base.

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 statement of comprehensive income. 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 and cash equivalents and trade and other receivables and all, therefore, comprise loans and receivables.

All financial assets are initially recognised at fair value plus transaction costs, when the Group becomes party to the contractual provisions of the instrument.

Interest and other cash flows resulting from holding financial assets are recognised in the statement of comprehensive income using the effective interest method.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade, loan receivables and other 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 the receivable. The amount of the impairment is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition.

A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset.

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 statement of comprehensive income.
- 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, trade and other payables and liabilities at fair value through profit and loss.

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 statement of comprehensive income 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 statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in profit or loss 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.

All derivative financial instruments are valued at fair value through profit and loss. No derivative financial instruments have been designated as hedging instruments. All interest related charges are included within finance costs or finance income. Changes in an instrument's fair value are disclosed separately in the statement of comprehensive income. Fair value is determined by reference to active market transactions or using a valuation technique where an active market exists.

A financial liability is derecognised only when the obligation is extinguished, that is when the obligation is discharged or cancelled or expires.

Classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classed as financial liabilities.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to equity.

Share warrants and share options

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 statement of comprehensive income with a corresponding credit to other reserves.

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

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

Segmental reporting

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available.

As the chief operating decision maker reviews financial information for and makes decisions about the Group's investment properties and properties held for trading as a portfolio, the directors have identified a single operating segment, that of investment in and trading of commercial properties.

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.

IAS 24 (Revised 2009)	Related party disclosures	Effective for periods beginning on or after 1 January 2011
	Improvements to IFRSs 2010	Effective in tranches beginning 1 July 2010 and 1 January 2011
	Deferred tax: recovery of underlying assets – amendments to IAS 12 Income Taxes	Effective for periods beginning on or after 1 January 2012

The Group has commenced assessment of the impact of the above standards on presentation and disclosure but is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

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:

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 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 15.

Trade and loans receivable

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade and loan 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 and loan receivables are provided in note 13.

Liability at fair value through profit and loss

The Group relies on its bankers to provide a valuation of its interest rate swap, further details of which are provided in note 16.

Deferred taxation on investment properties

The Group has a deferred tax asset of £3,310,000 at 31 December 2010 (2009: £2,509,000) in respect of the devaluation of investment properties which is provided on the basis that this devaluation will reverse in future years. The Directors are confident that this devaluation will reverse and taxable gains will arise on these investment properties.

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 in the ordinary course of business. 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. **Segmental information**

The segmental information is provided to the Chief Executive, who is the chief operating decision maker.

	Investment in and trading of properties	
	2010	2009
	£000	£000
Segment revenues – rental income	**3,298**	3,244
- sale of assets held as inventory	**722**	-
Cost of sales	**(1,251)**	544
Administrative expenses	**(1,340)**	(1,185)
Share of profit/(loss) of joint venture	**9**	(8)
Surplus on disposal of investment property	**186**	-
Net (loss)/gain on valuation of investment properties	**(4,119)**	2,659
Segment operating (loss)/profit	**(2,495)**	5,254
Segment assets	**75,684**	71,048

The segmental information provided to the Chief Executive also includes the following:

	2010	2009
	£000	£000
Finance income	**502**	570
Finance costs	**(2,418)**	(2,311)
Depreciation	**(7)**	(8)
Income tax	**801**	(1,224)

Revenue from external customers and non current assets arises wholly in the United Kingdom. All revenue for the year is attributable to the principal activities of the Group. Revenue from the largest customer represented 18% of the total revenue for the period and related to the sale of assets held as inventory.

3. (Loss)/profit on ordinary activities before taxation

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

	2010	2009
	£000	£000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	**15**	15
Fees payable to the Company's auditor for other services:		
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	**8**	8
Depreciation of owned property and equipment	**7**	8
Operating lease payments	**93**	71

4. Directors and employees

Staff costs during the period were as follows:

	2010	2009
	£000	£000
Wages and salaries	**711**	642
Social security costs	**88**	78
	799	720

The average number of employees (including executive directors) of the Group during the period was six, all of whom were engaged in administration (2009: five). The executive directors are the key management personnel and details of their remuneration are included within the directors' remuneration report on page 9.

5. Finance income/finance costs

	2010	2009
	£000	£000
Finance income:		
Interest receivable	**502**	570
Finance costs:		
Interest payable on bank loans	**(2,418)**	(2,311)

6. **Income tax (credit)/expense**

	2010		2009	
	£000	**%**	£000	%
Result for the year before tax	**(5,589)**		4,345	
Tax rate	**28%**		28%	
Expected tax (credit)/expense	**(1,565)**	**(28.0)**	1,217	28.0
Adjustment for non deductible expenses	**2**	**0.0**	2	0.0
Capital allowances claim prior year	**762**	**13.6**	-	-
Other adjustments	**-**	**-**	5	0.2
Actual tax (credit)/expense	**(801)**	**(14.4)**	1,224	(28.2)

Tax (credit)/expense comprises:

	2010	2009
Current tax expense	**-**	-
Deferred tax (credit)/expense (note 17)	**(801)**	1,224
	(801)	1,224

7. (Loss)/earnings per share and net assets per share

The calculation of (loss)/earnings per share is based on the result for the year after tax and on the weighted average number of shares in issue during the year. The calculation of diluted (loss)/earnings per share is based on the basic (loss)/earnings per share adjusted for the issue of shares on the assumed conversion of the warrants and share warrants (note 18).

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

	2010			2009		
	Loss £'000	**Average Number of shares**	**Loss Per Share**	Earnings £'000	Average number of shares	Earnings Per Share
Basic (loss)/earnings per share	**(4,788)**	**473,472,322**	**(1.01)p**	3,121	340,714,327	0.91p
Dilutive effect of conversion of convertible debt and share warrants	-	**-**	**-**	-	27,328,237	-
Diluted (loss)/earnings per share	**(4,788)**	**473,472,322**	**(1.01)p**	3,121	368,042,564	0.85p

The impact of share warrants and share options on the loss per share for the year ended 31 December 2010 is antidilutive.

The net assets per share is based on the net assets at 31 December 2010 of £32,267,000 (2009: £27,320,000) divided by the shares in issue at 31 December 2010 of 496,024,161 and at 31 December 2009 of 340,714,327.

8. Intangible assets

	Goodwill £000
Gross carrying amount	
Cost	
At 1 January 2010 and 31 December 2010	171
Accumulated impairment losses	
At 1 January 2010 and 31 December 2010	-
Net book amount at 31 December 2009 and 31 December 2010	**171**

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

9. Investment properties
Investment properties are those held to earn rentals and for capital appreciation.

The carrying amount of investment properties for the periods presented in the consolidated financial statements as at 31 December 2010 is reconciled as follows:

	£'000
Carrying amount at 1 January 2009	42,608
Additions	2,787
Revaluation	2,659
Carrying amount at 31 December 2009	48,054
Additions	6,730
Disposals	(187)
Revaluation	(4,119)
Carrying amount at 31 December 2010	**50,478**

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

	£000
At professional valuation	49,448
At directors' valuation	1,030
	50,478

All of the Group's investment properties are held as either freehold or long leasehold and are held for use in operating leases. The Group uses the fair value model for all its investment properties.

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

	2010	2009
	£'000	£'000
Cost and net book amount at 31 December	**61,588**	55,045

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 2010 has in the main been carried out by Gerald Eve LLP, professional valuers, on certain properties and the directors on the remaining properties.

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 2010 was £3,298,000 (2009: £3,244,000) and direct operating expenses in relation to those properties was £550,000 (2009: £330,000). All of the investment properties were fully or partly let.

10. **Property, plant & equipment**

	Leasehold improvements	Office equipment	Total
	£000	£000	£000
Gross carrying amount			
At 1 January 2009 and 31 December 2009	70	47	117
Additions	38	6	44
At 31 December 2010	108	53	161
Depreciation and Impairment			
At 1 January 2009	62	44	106
Charge for the year	7	1	8
At 31 December 2009	69	45	114
Charge for the year	5	2	7
At 31 December 2010	74	47	121
Net book carrying amount			
At 31 December 2010	**34**	**6**	40
At 31 December 2009	1	2	3

11. **Joint Venture**

	2010	2009
	£000	£000
At 1 January	**55**	25
Additions in the year	**39**	38
Group's share of the profit/(loss) for the year	**9**	(8)
At 31 December	**103**	55

11. Joint venture (continued)

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

	2010	2009
	£000	£000
Non current assets	1,050	1,050
Non current liabilities	(947)	(995)
	103	55
Group's share of income of joint venture	87	69
Group's share of expenses, interest and tax of joint venture	(78)	(77)
Group's share of profit/(loss) of joint venture	9	(8)

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

There were no capital commitments at 31 December 2010 and 31 December 2009 in respect of the joint venture.

There were no contingent liabilities at 31 December 2010 and 31 December 2009 in respect of the joint venture.

12. **Inventories**

	2010	2009
	£000	£000
Properties held for trading	6,053	6,754

All properties held for trading are included at the lower of cost and net realisable value. The amount of inventories recognised as a charge (2009: credit) in the year ended 31 December 2010 is £701,000 (2009: £875,000). All of the properties held for trading are pledged as security for bank loans.

Properties held at fair value less costs to sell at 31 December 2010 are £5,895,000 (2009: £5,795,000)

13. **Trade and other receivables**

	2010	2009
	£000	£000
Trade receivables	443	319
Loans receivable	2,340	1,613
Other receivables	475	432
Prepayments and accrued income	449	307
	3,707	2,671

13. Trade and other receivables (continued)

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 £161,000 (2009: £161,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	2010	2009
	£000	£000
At 1 January	161	75
Increase in provision for impairment	-	86
At 31 December	161	161

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:

	2010	2009
	£000	£000
Not more than three months past due	220	176
More than three months but no more than six months past due	46	39
	266	215

Financial assets by category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

	2010			2009		
	Loans and receivables	Non financial assets	Balance sheet Total	Loans and receivables	Non financial assets	Balance sheet total
	£000	£000	£000	£000	£000	£000
Trade receivables	443	-	443	319	-	319
Loans receivable	2,340	-	2,340	1,613	-	1,613
Other receivables	475	-	475	432	-	432
Prepayments and accrued income	-	449	449	-	307	307
Cash and cash equivalents	11,822	-	11,822	10,831	-	10,831
	15,080	449	15,529	13,195	307	13,502

14. **Trade and other payables**

	2010	2009
	£000	£000
Trade payables	**270**	210
Other payables	**348**	556
Social security and taxation	**93**	113
Accruals and deferred income	**1,230**	1,063
	1,941	1,942

Financial liabilities by category

The IAS 39 categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

	2010				2009			
	Financial liabilities at fair value through profit and loss	**Other financial liabilities at amortised cost**	**Liabilities not within the scope of IAS39**	**Balance sheet total**	Financial liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Liabilities not within the scope of IAS39	Balance sheet total
Current	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000
Bank loans	**-**	**22,131**	**-**	**22,131**	-	3,195	-	3,195
Provision for current taxation	**-**	**-**	**118**	**118**	-	-	149	149
Trade payables	**-**	**270**	**-**	**270**	-	210	-	210
Other payables	**-**	**348**	**-**	**348**	-	556	-	556
Social security and taxation	**-**	**-**	**93**	**93**	-	-	113	113
Accruals and deferred income	**-**	**1,230**	**-**	**1,230**	-	1,063	-	1,063
	-	**23,979**	**211**	**24,190**	-	5,024	262	5,286
Non-current								
Bank loans	**-**	**16,810**	**-**	**16,810**	-	37,203	-	37,203
Financial instruments	**2,417**	**-**	**-**	**2,417**	1,239	-	-	1,239
	2,417	**16,810**	**-**	**19,227**	1,239	37,203	-	38,442
	2,417	**40,789**	**211**	**43,417**	1,239	42,227	262	43,728

15. Financial risk management objectives and policies

The Group's financial instruments are bank borrowings, cash, bank deposits, interest rate swap agreements 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 and trade and other receivables. The Group's credit risk is primarily attributable to its trade and loan 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 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:

	2010	2009
	£000	£000
Classes of financial assets - carrying amount		
Cash and cash equivalents	**11,822**	10,831
Trade and other receivables	**3,707**	2,671
	15,529	13,502

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.

15. 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. The Group does this by taking out loans with banks to build up cash resources to fund property purchases.

Maturity of financial liabilities

The Group borrowings analysis at 31 December 2010 is as follows:

	2010	2009
	£000	£000
In less than one year:		
Bank borrowings	**22,131**	3,195
In more than one year but less than two years:		
Bank borrowings	**756**	20,740
In more than two years but less than five years:		
Bank borrowings	**4,236**	2,485
In more than five years		
Bank borrowings	**12,289**	14,448
Financial instruments	**2,417**	1,239
	41,829	42,107
Deferred arrangement costs	**(471)**	(470)
	41,358	41,637
Split		
Current liabilities - bank loans	**22,131**	3,195
Non current liabilities - bank loans	**16,810**	37,203
- financial liabilities at fair value through profit and loss	**2,417**	1,239
	41,358	41,637

In February 2008 the Group entered into interest rate swap agreements to cover £20 million of its bank borrowings. These contracts are considered by management to be part of economic hedge arrangements but have not been formally designated. The effect of these agreements is to fix the interest payable on a notional £10 million at a rate between 3.65% and 4.95% and to fix interest payable on a notional £10 million at 3.85%. At 31 December 2010 the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £2,417,000 (2009: £1,239,000).

At 31 December 2010 the Group had breached a Loan to Value covenant with Lloyds Banking Group with regard to the £20 million facility – Lloyds Banking Group have subsequently waived the requirement for this covenant such that the Group was deemed to be fully compliant. The loan is disclosure as falling due within one year and therefore the breach has no impact on the classification of this loan at 31 December 2010.

Borrowing facilities

The Group has no undrawn committed borrowing facilities at 31 December 2010 (2009: £nil).

15. Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

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

The interest rate exposure of the financial liabilities of the Group at 31 December 2010 was:

	Fixed Interest	Expiry Date	**2010**	2009
	%		**£000**	£000
Fixed until 1 October 2010	5.660	October 2010	**-**	2,500
Fixed until October 2019	6.300	October 2019	**10,000**	10,000
Fixed until October 2019	6.230	October 2019	**848**	881
Fixed until January 2015	6.295	December 2019	**1,308**	1,413
Fixed until August 2028	6.550	August 2028	**794**	817
Fixed until January 2030	6.040	January 2030	**4,820**	5,665
Fixed until March 2030	6.270	March 2030	**806**	832
Fixed until May 2030	5.780	May 2030	**1,543**	1,548
Fixed until March 2031	5.470	March 2031	**796**	808
Cap and collar agreement until January 2018	4.95% cap	January 2018	**10,000**	10,000
Variable rate			**8,497**	6,404
			39,412	40,868
Loan arrangement fees			**(471)**	(470)
			38,941	40,398

The Directors consider the fair value of the loans not to be significantly different from their carrying value.

The following table illustrates the sensitivity of the net result after tax and equity to a reasonably possible change in interest rates of + five/- point five percentage points (2009: + five/- point five percentage points) with effect from the beginning of the year:

	2010	**2010**	2009	2009
	+ 5.0%	- 0.5 %	+ 5.0%	- 0.5 %
	£'000	£'000	£'000	£'000
(Decrease)/increase in result after tax and equity	(230)	23	(190)	32

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.

15. 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;
- to provide capital for the purpose of further investment property acquisitions; and
- to provide an adequate return to shareholders.

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.

16. Fair value disclosures

Fair value measurement

The methods and techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period. Measurement methods for financial assets and liabilities accounted for at amortised cost and at fair value are described below.

Trade and other receivables, cash and cash equivalents and trade and other payables

The carrying amount is considered a reasonable approximation of fair value due to the short duration of these instruments.

Bank loans

Fair values are considered to be equivalent to book value as loans were obtained at market rates.

Financial instruments

Derivative financial instruments are accounted for at fair value through profit and loss. The basis of fair value measurement is described in note 1.

Fair value hierarchy

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy prescribed by IFRS 7 Financial Instruments Disclosures. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 : quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 : inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) and

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

16. Fair value disclosures (continued)

The financial liabilities measured at fair value in the statement of financial position, which relate to interest rate swaps, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	2010	2010	2010	2010
	£000	£000	£000	£000
Interest rate swap agreements:				
At I January 2010	-	1,239	-	1,239
Income statement	-	1,178	-	1,178
At 31 December 2010	-	2,417	-	2,417

17. Deferred taxation

The movement in deferred taxation assets is as follows:

	2010	2009
	£000	£000
At 1 January	2,509	3,733
Income statement (note 6)	801	(1,224)
At 31 December	3,310	2,509

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

	Deferred tax asset	Deferred tax asset
	£'000	£'000
Investment property	2,064	1,680
Financial instrument	653	347
Unused tax losses	593	482
	3,310	2,509

No temporary differences resulting from investments in subsidiaries or interests in joint ventures 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.

18. Share capital

	2010 Number Of shares	2009 Number Of shares	**2010 £000**	2009 £000
Allotted, issued and fully paid:				
Ordinary shares of 1p each	**496,024,161**	340,714,327	**4,960**	3,407

Movement in share capital:

	Number of shares	**£000**
At 1 January 2010	340,714,327	3,407
Issue of shares	155,309,834	1,553
At 31 December	**496,024,161**	**4,960**

At an Extraordinary General meeting held on 22 February 2010 the Company received shareholder approval to raise funds for expansion by way of placing 155,309,834 new Ordinary shares at 6.5p per share, raising £9.78 million net of expenses.

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.

At the Annual General meeting held in June 2010 a resolution was passed approving the adoption of a new Long Term Incentive Plan (LTIP). The proposed LTIP is designed to promote retention and incentivise the executive directors to grow the value of the Group and to maximise returns:

- The LTIP has a ten year life form January 2010 to December 2019.
- Awards become payable to the extent that shareholder return defined as net asset value ("NAV") growth adjusted for dividends and other returns to shareholders exceed a compound growth rate of 10% per annum (Hurdle Return).
- If shareholder returns exceed the Hurdle Return, 20% of such excess will be payable in Ordinary shares under the LTIP.
- Participants will have the opportunity to take up to 30% of the amount accrued under the LTIP at the end of year three, with the portion able to be taken up each year thereafter increasing by 10% each year and the full amount (100%) being available only after the end of the ten year period.
- The baseline for the commencement of the LTIP is the NAV per Ordinary share at 31 December 2009 adjusted for the impact of the placing of Ordinary shares in February 2010.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the higher of NAV per share as reported in the latest full year results and the weighted average mid-market closing price for the first 20 business days following announcement of the latest full year results. On issue, the Ordinary shares will rank pari passu with the existing issued Ordinary shares.
- The number of Ordinary which can be issued under the LTIP is limited to 10% of the Company's then issued share capital. Any excess earned above this level will be paid in cash provided that the remuneration committee consider it prudent to do so at that stage, otherwise payment will be deferred until the remuneration committee deem it prudent.

Details of options granted during the year under the LTIP are included in the Report on Remuneration. No expense has been recognised in respect of the options granted as the Directors do not consider it to be material to the financial statements.

19. Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £71,000 (2009: £71,000).

Non-cancellable operating lease commitments receivable:

	2010	2009
	£000	£000
Within one year	**95**	69
Later than one year but not later than five years	**4,308**	3,123
Later than five years	**20,823**	22,611
	25,226	25,803

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

20. Contingent liabilities

There were no contingent liabilities at 31 December 2010 or at 31 December 2009.

21. Capital commitments

Capital commitments authorised at 31 December 2010 were £2,790,000 (2009: £nil).

22. Pension scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2010 or 31 December 2009.

23. Related party transactions

During the period the Group paid agency fees of £62,400 (2009: £51,494) in respect of professional services to Bond Wolfe, a partnership in which P P S Bassi is a partner, and rent and service charges of £93,000 (2009: £71,000) to Bond Wolfe Estates Limited, a company in which P P S Bassi is a director and shareholder.

During the period the Group paid professional fees of £5,750 (2009: £18,292) to Bigwood Chartered Surveyors, a company in which P P S Bassi and M H P Daly are directors and shareholders.

During the period the Group received rental income of £52,000 (2009: £52,000) from Bigwood Chartered Surveyors.

24. Post balance sheet events

On 25 February 2011 the Group completed the acquisition of Kingston House, West Bromwich for £3,100,000.

REAL ESTATE INVESTORS PLC

COMPANY STATUTORY FINANCIAL STATEMENTS (PREPARED UNDER UK GAAP)

FOR THE YEAR ENDED 31 DECEMBER 2010

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 and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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 each of 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.

Independent auditor's report to the members of Real Estate Investors PLC

We have audited the parent Company financial statements of Real Estate Investors plc for the year ended 31 December 2010 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As more fully explained in the Statement of Directors' Responsibilities set out on page 43 the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of the audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the consolidated financial statements of Real Estate Investors plc for the year ended 31 December 2010.

Mark Taylor
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date: 4 April 2011

Accounting policies
The financial statements have been prepared in accordance with the Companies Act 2006 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.

Going concern

After making relevant enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. These enquiries considered the following:

- the significant cash balances the Company holds and the low levels of historic and projected operating cash outflows
- any property purchases will only be completed if cash resources or loans are available to complete these purchases
- the Group's bankers have indicated their continuing support for the Company
- the Company's £20 million facility with Lloyds Banking Group is due for renewal in May 2011 and the bank is looking to continue its support beyond this date subject to the conclusion of appropriate independent diligence.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

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. If a revaluation reverses previous losses recognised in the profit and loss account, the gain up to the amount of the losses previously recognised in the profit and loss account is credited 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 2006 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

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 the 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 substantively 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 and share options
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 and share options are ultimately recognised as an expense in the profit and loss account with a corresponding credit to other reserves.

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

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

BALANCE SHEET

As at 31 December 2010

	Note	2010	2009
		£000	£000
Fixed assets			
Tangible assets	1	**43,675**	39,853
Investments	2	**5,892**	5,892
		49,567	45,745
Current assets			
Debtors	3	**4,889**	3,831
Cash at bank		**11,056**	10,068
		15,945	13,899
Creditors: amounts falling due within one year	4	**(23,997)**	(4,189)
Net current (liabilities)/assets		**(8,052)**	9,710
Total assets less current liabilities		**41,515**	55,455
Creditors: amounts falling due after more than one year			
Other creditors	5	**(8,625)**	(29,044)
Net assets		**32,890**	26,411
Capital and reserves			
Ordinary share capital	7	**4,960**	3,407
Share premium account	8	**37,654**	29,472
Capital redemption reserve	8	**45**	45
Other reserves	8	**121**	121
Revaluation reserve	8	**380**	990
Profit and loss account	8	**(10,270)**	(7,624)
Equity shareholders' funds		**32,890**	26,411

These financial statements were approved by the Board of Directors on 4 April 2011.

Signed on behalf of the Board of Directors

J R A Crabtree – Chairman

M H P Daly – Finance Director

Company No 5045715

The accompanying principal 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	Total £000
Cost or valuation:				
At 1 January 2010	39,850	70	47	39,967
Additions	6,729	38	6	6,773
Disposals	(187)	-	-	(187)
Revaluation	(2,757)	-	-	(2,757)
At 31 December 2010	43,635	108	53	43,796
Accumulated depreciation				
At 1 January 2010	-	69	45	114
Charge for the period	-	5	2	7
At 31 December 2010	-	74	47	121
Net book amount				
At 31 December 2010	**43,635**	**34**	**6**	**43,675**
At 31 December 2009	39,850	1	2	39,853

Of the revaluation deficit of £2,757,000, the amount debited to the revaluation reserve is £610,000 with the balance of £2,147,000 charged to the profit and loss account.

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

	Investment properties	
	2010	2009
	£000	£'000
At valuation	**43,635**	39,850

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	
	2010	2009
	£'000	£000
Cost and net book amount at 31 December	**51,396**	45,394

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 2010 has been carried out by Gerald Eve LLP, Chartered Surveyors on the basis of fair value on certain properties and by the directors on the remaining properties.

No provision has been made for deferred taxation asset, in accordance with FRS 19, in respect of the devaluation of investment properties but it is expected that this devaluation will reverse in future years.

2. Fixed asset investments

	Investment in subsidiary undertakings	
	2010	2009
	£000	£000
Cost		
At 1 January and 31 December	**5,892**	5,892

At 31 December 2010 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
Metro Court (WB) Limited	Property investment	England and Wales

3. Debtors

	2010	2009
	£000	£000
Trade debtors	**372**	245
Amounts owed by subsidiary undertakings	**1,278**	1,282
Other debtors	**2,649**	1,933
Deferred tax asset	**67**	67
Prepayments and accrued income	**523**	304
	4,889	3,831

The deferred tax asset relates to losses carried forward of £766,000 (2009: £355,000) at a tax rate of 27% (2009: 28%). There is sufficient expectation of future taxable profits which will be available to offset these losses.

4. Creditors: amounts falling due within one year

	2010	2009
	£000	£000
Bank loans	**20,365**	348
Amounts owed to subsidiary undertakings	**1,934**	2,157
Trade creditors	**245**	639
Other creditors	**220**	295
Corporation tax	**150**	150
Social security and taxation	**77**	110
Accruals and deferred income	**1,006**	490
	23,997	4,189

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

The Company'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 2010 trade creditors represented 49 days (2009: 40 days) purchases based on the total purchases for the year.

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

	2010	2009
	£000	£000
Bank loans	**9,021**	29,400
Less: deferred arrangement costs	**(396)**	(356)
	8,625	29,044

Bank loans are secured against the Company's property assets and bear interest at rates between 5.3% and 6.4% per annum.

The Company borrowings analysis at 31 December 2010 is as follows:

	2010	2009
	£000	£000
In less than one year:		
Bank borrowings	**20,365**	348
In more than one year but less than two years:		
Bank borrowings	**379**	20,371
In more than two years but less than five years:		
Bank borrowings	**1,186**	1,215
In more than five years		
Bank borrowings	**7,456**	7,814
	29,386	29,748
Deferred arrangement costs	**(396)**	(356)
	28,990	29,392
Split		
Current Liabilities - bank loans	**20,365**	348
Non current liabilities - bank loans	**8,625**	29,044
	28,990	29,392

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 27% (2009:28%), for the year ended 31 December 2010 is £103,000 (2009:£277,000).

7. Share capital

	2010 Number Of shares	2009 Number Of shares	**2010 £000**	2009 £000
Allotted, issued and fully paid:				
Ordinary shares of 1p each	**496,024,161**	340,714,327	**4,960**	3,407

Movement in share capital:

	Number of shares	**£000**
At 1 January 2010	340,714,327	3,407
Issued of shares	155,309,834	1,553
At 31 December	**496,024,161**	**4,960**

At an Extraordinary General meeting held on 22 February 2010 the Company received shareholder approval to raise funds for expansion by way of placing 155,309,834 new Ordinary shares at 6.5p per share, raising £9.78 million net of expenses.

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.

At the Annual General meeting held in June 2010 a resolution was passed approving the adoption of a new Long Term Incentive Plan (LTIP). The proposed LTIP is designed to promote retention and incentivise the executive directors to grow the value of the Group and to maximise returns:

- The LTIP has a ten year life form January 2010 to December 2019.
- Awards become payable to the extent that shareholder return defined as net asset value (“NAV”) NAV growth adjusted for dividends and other returns to shareholders exceed a compound growth rate of 10% per annum (Hurdle Return).
- If shareholder returns exceed the Hurdle Return, 20% of such excess will be payable in Ordinary shares under the LTIP.
- Participants will have the opportunity to take up to 30% of the amount accrued under the LTIP at the end of year three, with the portion able to be taken up each year thereafter increasing by 10% each year and the full amount (100%) being available only after the end of the ten year period.
- The baseline for the commencement of the LTIP is the NAV per Ordinary share at 31 December 2009 adjusted for the impact of the placing of Ordinary shares in February 2010.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the higher of NAV per share as reported in the latest full year results and the weighted average mid-market closing price for the first 20 business days following announcement of the latest full year results. On issue, the Ordinary shares will rank pari passu with the existing issued Ordinary shares.
- The number of Ordinary which can be issued under the LTIP is limited to 10% of the Company’s then issued share capital. Any excess earned above this level will be paid in cash provided that the remuneration committee consider it prudent to do so at that stage, otherwise payment will be deferred until the remuneration committee deem it prudent.

7. Share capital (continued)

Details of options granted during the year under the LTIP are included in the Report on Remuneration. No expense has been recognised in respect of the options granted as the Directors do not consider it to be material to the financial statements.

8. Movement in reserves

	Share premium account	Capital redemption reserve	Other reserves	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2010	29,472	45	121	990	(7,624)	23,004
Loss for the year	-	-	-	-	(2,646)	(2,646)
Premium on issue of shares	8,542	-	-	-	-	8,542
Expense of share issue	(360)	-	-	-	-	(360)
Deficit on revaluation of investment properties	-	-	-	(610)	-	(610)
At 31 December 2010	**37,654**	**45**	**121**	**380**	**(10,270)**	**27,930**

9. Loss for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss (2009: profit) for the year was £2,646,000 (2009: £1,267,000).

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2009: £7,000), and for tax compliance services totalled £nil (2009: £nil).

10. Directors and employees remuneration

Details of Directors' remuneration are disclosed within the Directors' Remuneration Report on page 9.

11. Contingent liabilities

There were no contingent liabilities at 31 December 2010 or at 31 December 2009.

12. Capital commitments

Capital commitments authorised at 31 December 2010 were £2,790,000 (2009: £ Nil).

13. Related party transactions

During the period the Company paid agency fees of £62,400 (2009: £51,494) in respect of professional services to Bond Wolfe, a partnership in which P P S Bassi is a partner, and rent and service charges of £93,000 (2009: £71,000) to Bond Wolfe Estates Limited, a company in which P P S Bassi is a director and shareholder.

During the period the Company paid professional fees of £5,750 (2009: £18,262) to, and received rental income of £52,000 (2009: £52,000) from Bigwood Chartered Surveyors, a company in which P P S Bassi and M H P Daly are directors and shareholders.

Related party transactions with subsidiary undertakings are not disclosed as 100% of the voting rights are controlled within the group and consolidated financial statements are publicly available.

14. Post balance sheet events

On 25 February 2011 the company completed the acquisition of Kingston House, West Bromwich for £3,100,000.