



REAL ESTATE INVESTORS PLC

Report and Accounts
2004

FINANCIAL STATEMENTSFor the period from 16 February 2004 to 31 December 2004

Company registration number:	5045715
Registered office:	1 Westminster Way Oxford OX2 0PZ
Directors:	J J Jack – <i>Chairman</i> P H Lewin – <i>Managing Director</i> M T Lewin – <i>Finance Director</i>
Secretary:	M T Lewin
Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1 Westminster Way Oxford OX2 0PZ
Solicitors:	S J Berwin 222 Gray's Inn Road London WC1X 8XF
Nominated adviser:	Smith & Williamson Corporate Finance Limited No. 1 Riding House Street London W1A 3AS
Broker:	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges West Sussex RH10 1LQ
Bankers:	Barclays Bank plc 1st Floor 99 Hatton Garden London EC1N 8DN
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

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CHAIRMAN'S STATEMENT

I am delighted to be able to report to you on REI's considerable progress, since flotation in June 2004.

The results to 31 December 2004 reflect the start up phase for REI, and include part year rental income for three property acquisitions.

We have achieved the targets set by the directors, despite low borrowing costs in the UK which we believe has fuelled the most competitive and active property market in recent memory.

Our investment portfolio is currently valued at £19.8m, an increase of £15.6m since flotation. Gross rental income has increased from £0.35m to £1.4m and 15 million new shares have been issued, at a premium to underlying net asset value, and as a result our shareholder base has widened considerably.

We have concentrated our efforts on the purchase of medium sized commercial property investments, let to strong tenant covenants on secure leases. The portfolio is further diversified, by property type, geographic location and tenant.

Fixed interest, long term financing is the backbone of our business and I am pleased to say that several such new mortgage facilities have been put in place with institutional lenders; the largest being a £7.6m, 25 year, fixed coupon facility with Norwich Union.

Our portfolio is growing as a result of significant acquisitions, several of which I should like to mention.

In October 2004, we purchased a newly refurbished industrial complex, in Coventry, which is let to PHS Group PLC.

At the end of the year, we completed the acquisition of the share capital of 3147398 Limited (formerly Bacchus Estates Limited), for a total consideration of £9m in respect of the underlying properties. The company owns a diverse portfolio of 13 commercial investments, throughout Southern England and generates income of £0.65m, with good prospects of rental growth and capital appreciation.

We have recently completed the acquisition of the five property KBR portfolio, let to tenants including Barclays Bank, Whitbread, JJB Sports, St Austell Brewery and JJ Coral, for a total consideration of £3.5m. The locations are in Newport, Portsmouth, Wakefield, Ilfracombe, and Manchester.

Other activity includes the purchase of a retail investment in Hemel Hempstead Town Centre, let to Centrica PLC and the disposal of an A3 leisure property, in London SW11, let to Café Rouge. The latter was sold at a surplus over acquisition and book cost and will release £0.35m of cash, for our active acquisition programme.

All of these acquisitions involved the issue, to the vendors, of new ordinary shares in REI, at a premium to underlying asset value and we welcome those vendors to the shareholder list. At the time of flotation, in June last year, we set out the financing strategy for our acquisition programme and, despite the strength of the commercial property investment market and competition for quality investments, we have been able to find attractive opportunities, where vendors are prepared to invest in REI.

Your directors have the experience and depth of knowledge to generate the level and quality of business that will form the platform for our further expansion. We believe that the property investment sector is exhibiting classic signs of overheating and, with our low overhead structure, there will be increasing opportunities for us to improve profitability.

At this stage, your directors are not recommending the payment of a dividend.

With an eye to avoiding unnecessary costs, we are not preparing an illustrated annual report to accompany the financial statements. Instead we hope you will visit our website, www.reiplc.com, where financial information, property details, photographs and continuously updated news on REI can be viewed, with announcements by the company e-mailed directly to you.

The progress made over the past 16 months has been achieved through the hard work and dedication of our small but loyal staff; I should like to express my thanks to them, for their very considerable effort and support.

I shall look forward to the announcement of further significant progress, shortly.

John J Jack, *Chairman*.

CORPORATE GOVERNANCE

Directors' statement on corporate governance

The Board of Directors is accountable to shareholders for the good corporate governance of the group. Under the AIM rules for companies, the group is not required to comply with the Combined Code of Corporate Governance published in July 2003. However, the Board is aware of the best practice defined by the Code and will seek 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 company's governance procedures are documented below.

Application of principles

Directors

The composition of the Board is set out on page 5. The Board currently comprises a non-executive chairman and two executive directors. The Board is seeking to appoint a second non-executive director.

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

Accountability and audit

The Audit Committee comprises the independent non-executive chairman and the finance director. The committee oversees the adequacy of the group's internal controls, accounting policies and financial reporting and provides a forum through which the group's external auditors report to the non-executive chairman.

Going concern

After making relevant enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board has overall responsibility for ensuring that the group maintains systems of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and that the assets of the business are safeguarded. It is acknowledged that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key areas of internal control 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

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the period ended 31 December 2004.

Principal activity

The principal activities of the group are the investment in and trading of commercial properties.

Real Estate Investors Plc was incorporated on 16 February 2004 and commenced trading on its flotation on AIM on 10 June 2004.

Business review

The consolidated profit and loss account is set out on page 12, and a review of the group's performance and future prospects is given in the chairman's statement.

Full details of changes in share capital during the period are shown in note 18 to the financial statements.

The directors are not declaring a dividend in respect of the period.

Directors

The interests of the directors in the shares of the company at 31 December 2004 are disclosed in the directors' remuneration report on page 7.

The directors who served during the period were as follows:

Instant Companies Limited	(appointed 16 February 2004, resigned 16 March 2004)
Swift Incorporations Limited	(appointed 16 February 2004, resigned 16 March 2004)
J J Jack – Non-Executive Chairman	(appointed 16 March 2004)
P H Lewin – Chief Executive	(appointed 16 March 2004)
M T Lewin – Finance Director	(appointed 16 March 2004)

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

Substantial shareholdings

The company has been notified of the following interests that represent 3% or more of the issued share capital of the company at 8 June 2005:

	<i>Number</i>	<i>%</i>
P H Lewin	5,000,000	12.07%
Panther Securities Plc	4,200,000	10.14%
Naroti Resources SA	2,500,000	6.03%
Ponthall International Limited	2,500,000	6.03%
Fastbuck Limited	2,341,464	5.65%
M Shute	1,756,097	4.24%
R Harvey	1,756,097	4.24%
Point Star Shipping & Finance Limited	1,500,000	3.62%
T Grubb & IPM Trustees Limited	1,450,980	3.50%
Rhombus Properties LLP	1,384,615	3.34%

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 2004 trade creditors represented 29 days purchases based on the total purchases for the period.

Charitable donations

The group made no charitable donations during the period.

Directors' responsibilities for the financial statements

Company law in the UK requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable 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 group and company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton UK LLP filled a casual vacancy in accordance with Section 388(1) of the Companies Act 1985. A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with Section 385 of the Companies Act 1985.

By order of the board

M T Lewin
Secretary

8 June 2005

DIRECTORS' REMUNERATION REPORT

As a member of AIM, the company is not obliged to comply with the provisions of the Directors' Remuneration Report Regulations 2002. However, as part of its commitment to best corporate governance practice the company has prepared its directors' remuneration report as if it was required to comply with these regulations.

Remuneration committee

The remuneration committee is made up of the non-executive chairman and the chief executive. 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

Remuneration is set by reference to market rates, reduced to take account of the early stage of development of the business.

Directors' remuneration

The remuneration of directors for the period from commencement of trading on 10 June 2004 to 31 December 2004 was as follows:

	<i>Salary</i>	<i>Benefits</i>	<i>Total</i>
	<i>£000</i>	<i>in kind</i>	<i>£000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
J J Jack	4	—	4
P H Lewin	33	5	38
M T Lewin	33	—	33
	<u>70</u>	<u>5</u>	<u>75</u>

P H Lewin's salary has not yet been drawn in cash.

Management incentive arrangements

In accordance with the policy set out in the flotation admission document, the company intends to introduce a share incentive scheme in the near future.

Directors' interests in shares

The directors who held office at the end of the financial period had the following beneficial interests in the ordinary share capital of Real Estate Investors Plc at 31 December 2004. In each case the shares were subscribed for in cash on or before the flotation date of 10 June 2004 at the flotation price of 10p per share.

	<i>Ordinary shares</i>	<i>Percentage of</i>
	<i>of 1p</i>	<i>issued share</i>
	<i>Number</i>	<i>capital</i>
		<i>%</i>
J J Jack	750,000	2.34%
P H Lewin	5,000,000	15.63%
M T Lewin	750,000	2.34%

Approved by the board of directors

J J Jack
Chairman, remuneration committee

8 June 2005

REPORT OF THE INDEPENDENT AUDITORS

To the members of Real Estate Investors PLC

We have audited the financial statements of Real Estate Investors PLC for the period from 16 February 2004 to 31 December 2004 which comprise the principal accounting policies, group profit and loss account, group balance sheet, company balance sheet, group cashflow statement and notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. The other information comprises only the chairman's statement, directors' report, the corporate governance statement and directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 December 2004 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Registered Auditors

Chartered Accountants

OXFORD

8 June 2005

PRINCIPAL ACCOUNTING POLICIES

For the period from 16 February 2004 to 31 December 2004

Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

Accounting convention

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Real Estate Investors Plc and its subsidiaries for the period ended 31 December 2004. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired are included from the date of acquisition.

Goodwill

Goodwill on consolidation represents the excess of the purchase consideration over the fair value of net assets acquired, and is amortised to the profit and loss account over 20 years or its useful economic life, whichever is the shorter.

Negative goodwill

Negative goodwill represents the excess of the fair value of net assets acquired over the purchase consideration, and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

Turnover

Turnover, which excludes value added tax, comprises rental income which is recognised evenly over the term of the lease to which it relates and the proceeds from the sale of trading properties.

Investment properties

The group's properties held for long term investment are included in the balance sheet on the basis of market value in accordance with SSAP 19. The surpluses or deficits on annual revaluations of such properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties. Leasehold investment properties are not amortised where the unexpired term is over 20 years.

This policy represents a departure from statutory accounting principles, 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 annual 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.

Properties held for trading

Properties held for trading are included in the balance sheet at the lower of cost and net realisable value or, in the case of subsidiaries acquired, the fair value of the properties at the date of acquisition.

Financing costs

The costs of arranging finance for the group are written off to profit and loss account over the terms of the associated finance.

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 which give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using the rates of tax that have been enacted or substantially enacted by the balance sheet date.

Unprovided deferred taxation will crystallise on the sale of assets at their balance sheet value.

GROUP PROFIT AND LOSS ACCOUNT

For the period from 16 February 2004 to 31 December 2004

	<i>Note</i>	<i>2004</i>	<i>£000</i>	<i>£000</i>
Turnover				
Continuing operations		16		
Acquisitions		198		
		<u> </u>		
	1			214
Administrative expenses	2			<u>(218)</u>
Operating loss				
Continuing operations		(192)		
Acquisitions		188		
		<u> </u>		
				(4)
Net interest payable and similar charges	4			<u>(93)</u>
Loss on ordinary activities before taxation				
				(97)
Tax on loss on ordinary activities	5			<u>30</u>
Loss on ordinary activities after taxation				
				(67)
Dividends				<u>—</u>
Loss retained				
				<u><u>(67)</u></u>
Basic and diluted loss per share				
				<u><u>(0.36p)</u></u>

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

There is no difference between the loss on ordinary activities and the retained loss for the period stated above and their historical cost equivalents.

The group has no recognised gains or losses other than the results for the period as set out above.

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

GROUP BALANCE SHEET
At 31 December 2004

	<i>Note</i>	<i>2004</i> £000
Fixed assets		
Intangible assets – goodwill	8	148
– negative goodwill	8	(906)
		<u>(758)</u>
Tangible assets	9	5,574
		<u>4,816</u>
Current assets		
Stock	12	9,655
Debtors	13	334
Cash at bank		2,028
		<u>12,017</u>
Creditors: amounts falling due within one year	14	<u>(9,279)</u>
Net current assets		<u>2,738</u>
Total assets less current liabilities		7,554
Creditors: amounts falling due after more than one year		
Convertible debt		(325)
Other		(3,628)
	15	<u>(3,953)</u>
Net assets		<u><u>3,601</u></u>
Capital and reserves		
Called up share capital	18	320
Share premium account	19	2,703
Capital redemption reserve	19	45
Shares to be issued	19	600
Profit and loss account	19	(67)
		<u>3,601</u>
Shareholders' funds		<u><u>3,601</u></u>

The financial statements were approved by the Board of Directors on 8 June 2005.

Signed on behalf of the Board of directors

P H Lewin
Chief Executive

M T Lewin
Finance Director

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

COMPANY BALANCE SHEET
At 31 December 2004

	<i>Note</i>	<i>2004</i> £000
Fixed assets		
Tangible assets	9	1,374
Investments	10	4,164
		<u>5,538</u>
Current assets		
Debtors	13	579
Cash at bank		1,244
		<u>1,823</u>
Creditors: amounts falling due within one year	14	<u>(2,547)</u>
Net current liabilities		<u>(724)</u>
Total assets less current liabilities		4,814
Creditors: amounts falling due after more than one year		
Convertible debt		(325)
Other		(979)
	15	<u>(1,304)</u>
Net assets		<u><u>3,510</u></u>
Capital and reserves		
Ordinary share capital	18	320
Share premium account	19	2,703
Capital redemption reserve	19	45
Shares to be issued	19	600
Profit and loss account	19	(158)
Shareholders' funds		<u><u>3,510</u></u>

These financial statements were approved by the Board of Directors on 8 June 2005.

Signed on behalf of the Board of Directors

P H Lewin
Chief Executive

M T Lewin
Finance Director

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

GROUP CASH FLOW STATEMENT

For the period from 16 February 2004 to 31 December 2004

	<i>Note</i>	<i>2004</i>
		<i>£000</i>
Net cash inflow from operating activities	21	<u>84</u>
Returns on investments and servicing of finance		
Interest received		21
Interest paid		<u>(95)</u>
Net cash outflow from returns on investments and servicing of finance		(74)
Taxation		(20)
Capital expenditure and financial investment		
Purchase of tangible fixed assets		<u>(1,205)</u>
Net cash outflow from capital expenditure and financial investment		(1,205)
Acquisitions and disposals		
Purchase of subsidiary undertakings		(218)
Payment of exchange deposit for 3147398 Limited acquisition		(300)
Payment of amounts owed by subsidiaries to vendors		(837)
Net cash from purchase of subsidiaries		<u>763</u>
Net cash outflow from acquisitions and disposals		(592)
Financing		
Net proceeds from issue of shares		2,563
Receipts from borrowing		3,000
Repayments of borrowing		<u>(1,728)</u>
Net cash inflow from financing		<u>3,835</u>
Increase in cash	22	<u><u>2,028</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from 16 February 2004 to 31 December 2004

1 Turnover

Turnover relates entirely to rental income from investment properties within the UK.

2 Administrative expenses

The loss on ordinary activities before taxation is stated after:

	<i>Period from 16 February 2004 to 31 December 2004 £000</i>
Auditors' remuneration	
– Group audit fees (company: £7,000)	15
– Taxation compliance	8
Depreciation	10
Amortisation	4
Operating lease payments	5
	<u>5</u>

In addition, the group's auditors charged £30,000 in connection with the group's admission to the Alternative Investment Market of the London Stock Exchange, £26,000 in connection with due diligence and other work related to the acquisition of 3147398 Limited, and £1,000 in connection with the issue of shares as part consideration for the acquisition of property.

3 Directors and employees

Staff costs during the period were as follows:

	<i>Period from 16 February 2004 to 31 December 2004 £000</i>
Wages and salaries	91
Social security costs	5
	<u>96</u>

The average number of employees (including executive directors) of the group during the period was three, all of whom were engaged in administration.

In respect of directors' remuneration, the company has taken advantage of the permission in paragraph 1(6) of schedule 6 to the Companies Act 1985 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the directors' remuneration report on page 7.

4 Net interest payable and similar charges

	<i>Period from 16 February 2004 to 31 December 2004 £000</i>
Interest payable on bank loans	(114)
Interest receivable	21
	<u>(93)</u>

5 Tax on loss on ordinary activities

The tax credit represents:

	<i>Period from 16 February 2004 to 31 December 2004 £000</i>
United Kingdom corporation tax at 19%	—
Adjustment in respect of prior period of a subsidiary	(10)
Total current tax	(10)
Deferred tax	(20)
Tax on profit on ordinary activities	<u>(30)</u>

Tax losses of £106,000 remain available to offset against future trading profits.

Factors affecting tax charge for the period

The tax credit for the period differs from the standard rate of corporation tax in the UK of 19%. The differences are explained as follows:

	<i>Period from 16 February 2004 to 31 December 2004 £000</i>
Loss on ordinary activities before tax	(97)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	(18)
Capital allowances in excess of depreciation	(3)
Sundry adjustments	1
Adjustment in respect of prior period of a subsidiary	(10)
Losses carried forward	20
Current tax charge for the period	<u>(10)</u>

6 Loss for the financial period

The company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss for the period of the company was £158,000.

7 Loss per share

The calculation of loss per share is based on the loss retained for the period of £67,000 and on 18,927,814 ordinary shares of 1p each which is the weighted average number of shares in issue during the period ended 31 December 2004.

In accordance with FRS 14, the company has not disclosed a diluted loss per share figure as the calculation results in a decrease in the net loss per share for the period ended 31 December 2004.

	<i>Period from 16 February 2004 to 31 December 2004</i>		
	<i>Earnings £000</i>	<i>Weighted average number of shares</i>	<i>Loss per share amount</i>
Basic and diluted loss per share	(67)	18,927,814	(0.36p)

8 Intangible fixed assets

	<i>Goodwill on consolidation £000</i>	<i>Negative goodwill £000</i>	<i>Total £000</i>
Group			
Cost			
Additions	152	(906)	(754)
At 31 December 2004	<u>152</u>	<u>(906)</u>	<u>(754)</u>
Amortisation			
Provided during the year	4	—	4
At 31 December 2004	<u>4</u>	<u>—</u>	<u>4</u>
Net book amount at 31 December 2004	<u><u>148</u></u>	<u><u>(906)</u></u>	<u><u>(758)</u></u>

9 Tangible fixed assets

	<i>Investment properties £000</i>	<i>Leasehold improvements £000</i>	<i>Office equipment £000</i>	<i>Total £000</i>
Group				
Cost or valuation:				
Acquisition of subsidiary undertakings	4,200	—	—	4,200
Additions	1,275	70	39	1,384
At 31 December 2004	<u>5,475</u>	<u>70</u>	<u>39</u>	<u>5,584</u>
Accumulated depreciation				
Charge for the period	—	6	4	10
At 31 December 2004	<u>—</u>	<u>6</u>	<u>4</u>	<u>10</u>
Net book amount: At 31 December 2004	<u><u>5,475</u></u>	<u><u>64</u></u>	<u><u>35</u></u>	<u><u>5,574</u></u>
Company				
Cost or valuation:				
Additions	1,275	70	39	1,384
At 31 December 2004	<u>1,275</u>	<u>70</u>	<u>39</u>	<u>1,384</u>
Accumulated depreciation				
Charge for the period	—	6	4	10
At 31 December 2004	<u>—</u>	<u>6</u>	<u>4</u>	<u>10</u>
Net book amount: At 31 December 2004	<u><u>1,275</u></u>	<u><u>64</u></u>	<u><u>35</u></u>	<u><u>1,374</u></u>

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

	<i>Investment properties</i>	
	<i>Group £000</i>	<i>Company £000</i>
At valuation	<u>5,475</u>	<u>1,275</u>

All of the group's investment properties are held as either freehold or long leasehold.

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

	<i>Investment properties</i>	
	<i>Group</i>	<i>Company</i>
	<i>£000</i>	<i>£000</i>
Cost and net book amount at 31 December 2004	5,458	1,275

Investment properties were valued by external valuers during the period on the basis of open market value.

In accordance with SSAP 19, the directors have evaluated these valuations at 31 December 2004, on the basis of open market value, and consider them to be reasonable.

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

10 Fixed asset investments

	<i>Investment in subsidiary undertakings 2004</i>
	<i>£000</i>
Company	
Cost	
Additions	4,164
At 31 December 2004	4,164

At 31 December 2004 the company wholly owned the following subsidiaries:

<i>Name</i>	<i>Principal activity</i>	<i>Country of incorporation</i>
Boothmanor Limited	Property investment	England and Wales
Eurocity (Crawley) Limited	Property investment	England and Wales
3147398 Limited	Property trading	England and Wales

11 Acquisitions

- (a) On 10 June 2004, on flotation, the company acquired the whole issued share capital of Eurocity (Crawley) Limited.

The results of Eurocity (Crawley) Limited prior to the acquisition were as follows:

	<i>Period from 1 January to 10 June 2004</i>
	<i>£000</i>
Turnover	134
Administration expenses	(3)
Operating profit	131
Net interest payable	(57)
Profit on ordinary activities before taxation	74
Taxation	(24)
Profit for the financial period after taxation	50

The acquisition of Eurocity (Crawley) Limited has been accounted for by the acquisition method of accounting. The following table sets out the adjustments made to the book value of assets and

liabilities acquired to arrive at fair values included in the consolidated financial statements at the date of acquisition.

	<i>Book value</i>	<i>Revaluation</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Investment property	3,000	100	3,100
Creditors	(716)	—	(716)
Corporation tax	(43)	—	(43)
Borrowings	(1,717)	—	(1,717)
	<u>524</u>	<u>100</u>	<u>624</u>
Goodwill			<u>128</u>
			<u>752</u>
Satisfied by:			
Cash			102
Issue of shares			325
Unsecured convertible loan notes			325
			<u>752</u>

The fair value adjustment relates to the revaluation of the investment property to open market value.

The subsidiary undertaking acquired during the period made the following contribution to group cash flow:

	<i>2004</i>
	<i>£000</i>
Net cash inflow from operating activities	92
Tax	(20)
Financing activities	293
Payments of amounts owed to vendors	(635)
Decrease in cash	<u>(270)</u>

Analysis of net outflow of cash in respect of the purchase of the subsidiary undertaking:

	<i>2004</i>
	<i>£000</i>
Cash consideration	<u>(102)</u>

- (b) On 10 June 2004, on flotation, the company acquired the whole issued share capital of Boothmanor Limited. The results of Boothmanor Limited prior to the acquisition were as follows:

	<i>Period from</i>
	<i>1 February to</i>
	<i>10 June 2004</i>
	<i>£000</i>
Turnover	23
Administration expenses	(9)
Operating profit	<u>14</u>
Net interest payable	(21)
Loss on ordinary activities before taxation	<u>(7)</u>
Taxation	—
Loss for the financial period after taxation	<u>(7)</u>

The acquisition of Boothmanor Limited has been accounted for by the acquisition method of accounting. The following table sets out the book value of assets and liabilities acquired, which are also the fair values included in the consolidated financial statements at the date of acquisition.

	<i>Book value and fair value £000</i>
Investment property	1,100
Debtors	2
Cash at bank and in hand	12
Creditors	(215)
Borrowings	(807)
	<u>92</u>
Goodwill	24
	<u>116</u>
Satisfied by:	
Cash	<u>116</u>

The subsidiary undertaking acquired during the period made the following contribution to group cash flow.

	<i>2004 £000</i>
Net cash inflow from operating activities	28
Financing activities	(7)
Payments of amounts owed to vendors	(202)
Decrease in cash	<u>(181)</u>

Analysis of net outflow of cash in respect of the purchase of the subsidiary undertaking:

	<i>2004 £000</i>
Cash at bank and in hand acquired	12
Cash consideration	(116)
	<u>(104)</u>

- (c) The acquisition of 3147398 Limited was the subject of a conditional contract scheduled to be completed on 23 December 2004, on which date funds were drawn down for the completion and all conditions satisfied, save only that one item of banking documentation relating to the discharge of security could not be made available before Christmas. The directors consider that control of 3147398 Limited had effectively passed to Real Estate Investors Plc prior to 31 December 2004, and the consolidated financial statements have therefore been drawn up to include the assets and liabilities of 3147398 Limited, as at 31 December 2004. This has no effect on the consolidated profit and loss account.

On completion on 5 January 2005 the existing bank loans of 3147398 Limited, amounting to £6,102,000, were repaid and replaced by a new facility of £7,600,000 of which £7,200,000 was made immediately available to the group. The facility is repayable by instalments over a period of 25 years at a fixed interest rate of 6.04%. At the same time payments of approximately £2,150,000 were made to the vendor in connection with the completion of the transaction, which have not been reflected in these accounts. The effect of these transactions was to reduce the group's cash balances from £2,028,000 to £967,000. The company has included the assets and liabilities of 3147398 Limited as at 31 December 2004 in its consolidated financial statements although legal completion of the acquisition took place on 5 January 2005.

The results of 3147398 Limited prior to 31 December 2004 were as follows:

	<i>Period from 1 October to 31 December 2004 £000</i>
Turnover	1,667
Cost of sales	(1,352)
Gross profit	315
Administration expenses	(52)
Operating profit	263
Net interest payable	(98)
Profit on ordinary activities before taxation	165
Taxation	(58)
Profit for the financial period after taxation	107

The acquisition of 3147398 Limited has been accounted for by the acquisition method of accounting. The following table sets out the adjustments made to the book value of assets and liabilities acquired, to arrive at fair values included in the consolidated financial statements at the date of acquisition:

	<i>Book value £000</i>	<i>Revaluation £000</i>	<i>Fair value £000</i>
Properties held for trading	5,863	3,792	9,655
Debtors	170	—	170
Cash at bank	752	—	752
Creditors	(110)	—	(110)
Corporation tax	(163)	—	(163)
Borrowings	(6,102)	—	(6,102)
	<u>410</u>	<u>3,792</u>	4,202
Negative goodwill			(906)
			<u>3,296</u>
Satisfied by:			
Deferred consideration			2,696
Issue of shares			600
			<u>3,296</u>

The fair value adjustments relate to the revaluation of the properties held for trading to open market value.

The subsidiary undertaking acquired during the period made no contribution to group cash flow.

Analysis of net inflow of cash in respect of the purchase of the subsidiary undertaking:

	<i>2004 £000</i>
Cash at bank and in hand acquired	752
Payment of exchange deposit for acquisition	(300)
	<u>452</u>

On 5 January 2005 the cash consideration due on completion in relation to this acquisition was paid.

On 7 January 2005 5,853,658 ordinary shares of 1p each were issued for £600,000 as part consideration for the acquisition of 3147398 Limited.

12 Stocks

	<i>Group</i> <i>2004</i> <i>£000</i>
Properties held for trading	9,655

13 Debtors

	<i>Group</i> <i>2004</i> <i>£000</i>	<i>Company</i> <i>2004</i> <i>£000</i>
Trade debtors	215	34
Amounts owed by subsidiary undertakings	—	505
Other debtors	15	13
Deferred tax asset	20	20
Prepayments and accrued income	84	7
	<u>334</u>	<u>579</u>

The deferred tax asset relates to losses carried forward of £106,000 at a tax rate of 19%. There is sufficient expectation of future taxable profits which will be available to offset these losses.

14 Creditors: amounts falling due within one year

	<i>Group</i> <i>2004</i> <i>£000</i>	<i>Company</i> <i>2004</i> <i>£000</i>
Bank loans (note 16)	6,272	24
Trade creditors	65	61
Other creditors	2,162	2,095
Corporation tax	176	—
Social security and taxation	3	—
Accruals and deferred income	601	367
	<u>9,279</u>	<u>2,547</u>

15 Creditors: amounts falling due after more than one year

	<i>Group</i> <i>2004</i> <i>£000</i>	<i>Company</i> <i>2004</i> <i>£000</i>
Bank loans (note 16)	3,689	997
Convertible debt	325	325
Less: deferred arrangement costs	(61)	(18)
	<u>3,953</u>	<u>1,304</u>

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

Convertible debt represents unsecured convertible loan notes which may be converted into ordinary shares of 1p at any time after 10 June 2005 at the rate of 11p per share. The notes are redeemable at any time at the company's option, and unless converted or redeemed earlier are repayable in full on 10 June 2009. No interest is payable on the notes.

16 Financial instruments

Set out below are the disclosures relating to financial instruments. The group has taken advantage of the exemption available under FRS 13 “Derivatives and other financial instruments” not to provide numerical disclosures in relation to short-term debtors and creditors.

The group’s financial instruments are bank borrowings, cash and various items such as short-term debtors and creditors 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 interest rate risk and liquidity 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.

Interest rate risk

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

The interest rate exposure of the financial liabilities of the group as at 31 December 2004 was:

	<i>Fixed interest</i>		<i>Group</i>
	%	<i>Expiry date</i>	£000
Fixed until October 2019	6.230	October 2019	1,020
Fixed until April 2013	6.250	April 2023	799
Fixed until January 2015	6.295	December 2019	2,040
Repaid 5 January 2005 (see note 11)			6,102
			<u>9,961</u>
Deferred arrangement costs			(61)
			<u>9,900</u>

For the loans which expire in December 2019 and April 2023, the current fixed rates arrangements end on the dates specified above and interest is then either paid on a floating rate basis, or a renegotiated fixed rate basis to be decided.

Liquidity risk

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

Maturity of financial liabilities

The group financial liabilities analysis at 31 December 2004 was as follows:

	<i>Group</i>	<i>Company</i>
	2004	2004
	£000	£000
In less than one year		
Bank borrowings	6,272	24
In more than one year but less than two years		
Bank borrowings	176	26
In more than two years but less than five years		
Bank borrowings	557	89
In more than five years		
Bank borrowings	2,956	882
	<u>9,961</u>	<u>1,021</u>
Deferred arrangement costs	(61)	(18)
	<u>9,900</u>	<u>1,003</u>

Borrowing facilities

The group had no undrawn committed borrowing facilities at 31 December 2004.

At 31 December 2004 the group had, subject to final release, secured refinancing in relation to the acquisition of 3147398 Limited (note 11).

Fair value and maturity of financial instruments

At 31 December 2004 the group had total borrowings of £9,900,000. Fair values were not materially different from book values at 31 December 2004.

17 Deferred tax

No provision has been made for deferred tax on gains recognised on revaluing investment properties and property stock to their market value and fair value respectively, in accordance with FRS 19.

The total amount unprovided, at an estimated tax rate of 30%, for the period ended 31 December 2004 is £1,140,000.

18 Share capital

	<i>Number of shares</i>	<i>£000</i>
Authorised:		
Ordinary shares of 1p each	1,000,000,000	10,000
Allotted, called up and fully paid		
Ordinary shares of 1p each	31,984,615	320

On 16 February 2004, 2 ordinary shares of £1 each were issued for £2 in cash.

On 17 March 2004, 49,998 ordinary shares of £1 each were issued for £49,998 in cash.

On 4 June 2004 each issued £1 ordinary share was subdivided into 10 ordinary shares of 1p each and one deferred share of 90p. The deferred shares were redeemed for 1p in the aggregate.

On 10 June 2004, 22,650,000 ordinary shares of 1p each were issued for £2,265,000 in cash and 3,250,000 ordinary shares of 1p each were issued for £325,000 as part consideration for the acquisition of the share capital of Eurocity (Crawley) Limited.

On 31 August 2004, 4,200,000 ordinary shares of 1p each were issued for £504,000 in cash.

On 28 October 2004, 1,384,615 ordinary shares of 1p each were issued for £180,000 as part consideration for the acquisition of Unit 1, Coventry.

The excess of the total consideration for shares issued of £3,279,000 over the nominal value of £320,000 has been credited to the share premium account.

19 Movement in reserves

	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Capital redemption reserve £000</i>	<i>Shares to be issued £000</i>	<i>Total £000</i>
Group					
Loss for the period	—	(67)	—	—	(67)
Premium on issue of shares (note 18)	2,959	—	—	—	2,959
Expenses of share issues	(256)	—	—	—	(256)
Redemption of shares	—	—	45	—	45
Shares issued 7 January 2005 (note 11)	—	—	—	600	600
At 31 December 2004	<u>2,703</u>	<u>(67)</u>	<u>45</u>	<u>600</u>	<u>3,281</u>
Company					
Loss for the period	—	(158)	—	—	(158)
Premium on issue of shares (note 18)	2,959	—	—	—	2,959
Expenses of share issues	(256)	—	—	—	(256)
Redemption of shares	—	—	45	—	45
Shares issued on 7 January 2005 (note 11)	—	—	—	600	600
At 31 December 2004	<u>2,703</u>	<u>(158)</u>	<u>45</u>	<u>600</u>	<u>3,190</u>

**20 Reconciliation of movements in shareholders' funds
for the period from 16 February 2004 to 31 December 2004**

	<i>2004 £000</i>
Loss for the period	(67)
Issue of ordinary shares	320
Premium on issue of ordinary shares	2,703
Capital redemption reserve	45
Shares to be issued	600
	<u>3,601</u>

21 Reconciliation of operating loss to net cash inflow from operating activities

	<i>2004 £000</i>
Operating loss	(4)
Depreciation	10
Amortisation	4
Increase in debtors	(100)
Increase in creditors	174
Net cash inflow from operating activities	<u>84</u>

22 Reconciliation of net cash flow to movement in net debt

	<i>2004 £000</i>
Increase in cash in the period	2,028
Net cash inflow from financing	(1,272)
Change in net debt resulting from cash flows	756
Loans acquired with subsidiaries	(8,949)
Other non-cash movements	(4)
	<u>(8,197)</u>

23 Analysis of movement in net debt

	<i>Cash flow</i>	<i>Acquisitions (excluding cash)</i>	<i>Non-cash</i>	<i>At 31 December 2004</i>
	<i>£000</i>	<i>£000</i>	<i>changes £000</i>	<i>£000</i>
Cash at bank	2,028	—	—	2,028
	2,028	—	—	2,028
Debt due within one year	(4)	(6,268)	—	(6,272)
Debt due after one year	(1,268)	(2,681)	(4)	(3,953)
	756	(8,949)	(4)	(8,197)

24 Major non-cash transactions

- (a) During the period the group purchased an investment property with a total capital value of £1,275,000.

Part of the consideration for this purchase was £180,000 in issued shares.

- (b) Part of the consideration for the purchase of interests in subsidiary undertakings comprised shares and convertible debt. Further details of these acquisitions and disposals are given in note 11 above.

25 Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £14,000.

26 Contingent liabilities

There were no contingent liabilities at 31 December 2004 with the exception of the provision for deferred tax (note 17).

27 Capital commitments

There were no capital commitments at 31 December 2004.

28 Pension scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2004.

29 Post balance sheet events

On 9 March 2005 the company completed the acquisition of a freehold property in Hemel Hempstead, Hertfordshire, for a consideration of £1,085,000, satisfied as to £900,000 in cash and £185,000 by the issue of 1,450,980 ordinary shares of 1p.

On 27 April 2005 the company's subsidiary Boothmanor Limited exchanged conditional contracts to dispose of a leasehold property in London, SW11, for a consideration of £1,190,000 payable in cash on completion.

On 27 May 2005 the company completed the acquisition of five freehold properties in Wakefield, Devon, Manchester, Portsmouth and Newport, South Wales, for a consideration of £3,499,320, satisfied as to £3,284,388 in cash and £214,932 by the issue of 1,999,367 ordinary shares of 1p.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2005 Annual General Meeting of Real Estate Investors PLC will be held at Smith & Williamson, No 1 Riding House Street, London W1A 3AS on 20 July 2005 at 11.00 am for the following purposes:

As ordinary business

1. To receive and if thought fit adopt the audited financial statements for the period ended 31 December 2004, and the reports of the directors and auditors thereon.
2. To re-elect Mr MT Lewin, who retires by rotation in accordance with the Company's Articles of Association, as director
3. To reappoint Grant Thornton UK LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the directors to fix their remuneration

By order of the Board

MT Lewin
Secretary

Registered office:
1 Westminster Way
Oxford OX2 0PZ

17 June 2005

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy card is enclosed. To be valid, the proxy card must be lodged with the Company's registrars, Capita IRG, not later than 48 hours before the time fixed for the meeting. Completion of a form of proxy does not preclude members from attending the meeting and voting in person if they wish.
 2. Copies of the Company's memorandum and articles of association, directors' service contracts and the register of directors' interests in the shares of the Company will be available for inspection at REI House, Bury Lane, Rickmansworth, Hertfordshire WD3 1ED during normal business hours on weekdays (public holidays excepted) from the date of this Notice until the date of the Meeting and at the place of the Meeting from 15 minutes before the start of the Meeting until the conclusion of the Meeting.
 3. The Company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at close of business on 18 July 2005 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
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