



REAL ESTATE INVESTORS PLC

**Report and Accounts
2005**

FINANCIAL STATEMENTS
For the year ended 31 December 2005

Company registration number:	5045715
Registered office:	1 Westminster Way Oxford OX2 0PZ
Directors:	J J Jack – <i>Chairman</i> P H Lewin – <i>Chief Executive</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 10 Queen Street Place London EC4R 1BE
Nominated adviser:	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
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 very pleased to report again to our shareholders on an active 12 months for REI.

Our gross property assets increased over the year by 31% from £15.1m to £19.8 million. Rental income for 2005 was £1.2 million compared to £0.2 million for the six and a half months to 31 December 2004. Net assets increased by £2.2 million from £3.6 million to £5.8 million, an increase of 61%. Balance sheet net asset value per share rose by 17% from 9.52p to 11.10p. This latter figure excludes a significant increase in the value of our trading stock, which is not revalued in the accounts. After adding back negative goodwill, the net asset value per share increased by 8% from 11.91p to 12.83p.

I am pleased to report that, following the pre-tax loss of £97,000 for our initial six month start-up period to 31 December 2004, we have now made sufficient progress to achieve our objective of moving the business into surplus in 2005, with a pre-tax profit of £20,000, and we aim to make significant further progress during 2006. We have also started the current year with £1.1 million of cash balances, which provide a base for further expansion.

To say that the UK property markets remain challenging is something of an understatement, but your directors have experience of tough markets, and the company's progress over the past twelve months is evidence of our ability to achieve our targets.

The present low interest rate structure in the UK and the unprecedented volumes of money being lent to the property sector have pushed yields down to levels not seen in modern times. The attractions of well let commercial property are now widely appreciated, not just by professional property investors but by a range of investors who have been disappointed with alternative investment opportunities; business therefore remains highly competitive. Nevertheless, vendors of suitable properties are prepared to invest in REI and we continue to acquire the quality investments which meet our strict criteria.

Since flotation in 2004, REI has created the stable and profitable platform that will allow us to grow and expand the company. Continued growth will include corporate investments. Several such opportunities are under consideration at the present time and I hope to be able to provide you with further details about these in the near future.

Our portfolio continues to grow and, with our recent acquisition in West Bromwich (purchased since the year end), currently stands at £20.9 million. I would like to describe in brief the purchases completed over the past 12 months, several of which I have advised you of in earlier statements.

The purchase of the share capital of 3147398 Limited, the former Bacchus Estates Limited, which completed in January 2005 for a consideration of £9 million in respect of the underlying properties, brought 13 commercial properties into the portfolio and they are performing well.

Similarly, the five property KBR portfolio has extended our activities into new locations in the UK.

We have purchased a retail investment in Hemel Hempstead town centre, let to Centrica PLC, and the disposal of our A3 leisure investment in Battersea, London, generated £360,000 of cash.

All of these purchases involved the issue to the vendors of new REI shares and this strategy will continue.

Our flexible capital structure has enabled our stockbrokers, Seymour Pierce Ellis, to satisfy investor demand with two share placings, generating £1.06 million of cash before expenses.

REI started 2006 with the purchase of a town centre office investment in West Bromwich, which is let on a long lease to a prominent West Midlands firm of solicitors. The consideration paid of £1,100,000 included the issue to the vendors of 1,000,000 new REI ordinary shares at 10p per share. The investment is being funded by way of a 25 year, fixed interest, institutional mortgage.

2006 offers us continuing opportunities and I shall look forward to advising you of our further progress.

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

Please visit our website, www.reiplc.com, where financial information and announcements of property deals can be viewed. Continuously updated news on REI can be viewed and company announcements can be e-mailed directly to you.

As was the case last year, we will not be spending money on an illustrated annual report. Photographs and much else will be available at our website.

Our active year has been made possible by the application and hard work of our loyal staff. The constraints of tight overhead control result in staff numbers being low and I thank them all for their considerable efforts during the year.

I shall look forward to announcing further activity, shortly.

John J Jack
Chairman

27 February 2006

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 6. 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 year ended 31 December 2005.

Principal activity

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

Business review

The consolidated profit and loss account is set out on page 13, 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 2005 are disclosed in the directors' remuneration report on page 8.

The directors who served during the period were as follows:

J J Jack	Non-Executive Chairman
P H Lewin	Chief Executive
M T Lewin	Finance Director

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

Substantial shareholdings

The company has been notified of the following interests that represent 3% or more of the issued share capital of the company at 27 February 2006.

	<i>Number</i>	<i>%</i>
P H Lewin	6,250,000	11.95%
Panther Securities Plc	4,200,000	8.03%
Naroti Resources SA	3,750,000	7.17%
Fastbuck Limited	2,341,464	4.48%
M Shute	1,756,097	3.36%
R Harvey	1,756,097	3.36%

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 2005 trade creditors represented 34 days purchases based on the total purchases for the period.

Charitable donations

The group made no charitable donations during the period.

Post balance sheet events

The group exchanged unconditional contracts on 9 February 2006 to purchase a freehold office investment property in West Bromwich town centre for consideration of £1.1 million, of which £100,000 will be satisfied by the issue of shares.

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

United Kingdom Company Law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

By order of the board

M T Lewin
Secretary

27 February 2006

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 good corporate governance practice the company provides the following information.

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 (forming part of the financial statements and subject to audit)

The remuneration of directors for the year ended 31 December 2005 was as follows:

	<i>Salary</i>	<i>Benefits</i>	<i>Pension</i>	<i>Total</i>
	<i>£000</i>	<i>in kind</i>	<i>contribu-</i>	<i>£000</i>
	<i>£000</i>	<i>£000</i>	<i>tions</i>	<i>£000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
J J Jack	10	—	—	10
P H Lewin	52	10	28	90
M T Lewin	75	—	—	75
	<u>137</u>	<u>10</u>	<u>28</u>	<u>175</u>

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 2005.

	<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	1.43%
P H Lewin	6,250,000	11.95%
M T Lewin	750,000	1.43%

Approved by the board of directors

J J Jack
Chairman, remuneration committee

27 February 2006

REPORT OF THE INDEPENDENT AUDITORS**To the members of Real Estate Investors PLC**

We have audited the group and parent company financial statements (the “financial statements”) of Real Estate Investors Plc for the year ended 31 December 2005 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses 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 (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and 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, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman’s Statement, the Corporate Governance Statement, the Directors’ Report and the Directors’ Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Oxford

27 February 2006

The maintenance and integrity of the company's website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

PRINCIPAL ACCOUNTING POLICIES**For the year ended 31 December 2005**

Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice). The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year except for the adoption of FRS 21, 22 and 25 (for which both the presentation and disclosure requirements have been adopted). The adoption of these new UK Financial Reporting Standards does not have a material effect on the current year's or prior year's financial statements and, therefore, no restatement is considered appropriate.

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 year ended 31 December 2005. 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

Certain of the group'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. 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
Motor vehicles	– 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 (or, in the case of subsidiaries acquired, the fair value of the properties at the date of acquisition) and net realisable value.

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 give the group 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 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.

Financial instruments

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

	<i>Note</i>	2005 £000	<i>2004</i> <i>£000</i>
Turnover	1	1,181	214
Administration expenses	2	(441)	(218)
Other operating income		35	—
Operating profit/(loss)		775	(4)
Surplus on disposal of fixed asset investment property		45	—
Profit/(loss) on ordinary activities before interest		820	(4)
Net interest payable and similar charges	4	(800)	(93)
Profit/(loss) on ordinary activities before taxation		20	(97)
Tax (charge)/credit on profit/(loss) on ordinary activities	5	(6)	30
Profit/(loss) on ordinary activities after taxation		14	(67)
Dividends		—	—
Profit/(loss) retained		14	(67)
Basic earnings/(loss) per share		0.03p	(0.36p)
Diluted earnings per share		0.03p	

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

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

GROUP BALANCE SHEET
At 31 December 2005

	<i>Note</i>	2005 £000	<i>2004</i> <i>£000</i>
Fixed assets			
Intangible assets – goodwill	8	117	148
– negative goodwill	8	(903)	(906)
		(786)	(758)
Tangible assets	9	10,216	5,574
		9,430	4,816
Current assets			
Stock	11	9,703	9,655
Debtors	12	189	334
Investments	13	1,282	—
Cash at bank		1,065	2,028
		12,239	12,017
Creditors: amounts falling due within one year	14	(1,840)	(9,279)
Net current assets		10,399	2,738
Total assets less current liabilities		19,829	7,554
Creditors: amounts falling due after more than one year			
Convertible debt		(325)	(325)
Other		(13,695)	(3,628)
	15	(14,020)	(3,953)
Net assets		5,809	3,601
Capital and reserves			
Called up share capital	18	523	320
Share premium account	19	4,586	2,703
Capital redemption reserve	19	45	45
Shares to be issued	19	—	600
Revaluation reserve	19	708	—
Profit and loss account	19	(53)	(67)
Shareholders' funds		5,809	3,601

The financial statements were approved by the Board of Directors on 27 February 2006.

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 2005

	<i>Note</i>	2005 £000	<i>2004</i> <i>£000</i>
Fixed assets			
Tangible assets	9	6,926	1,374
Investments	10	4,155	4,164
		<u>11,081</u>	<u>5,538</u>
Current assets			
Debtors	12	404	579
Cash at bank		915	1,244
		<u>1,319</u>	<u>1,823</u>
Creditors: amounts falling due within one year	14	<u>(2,254)</u>	<u>(2,547)</u>
Net current liabilities		<u>(935)</u>	<u>(724)</u>
Total assets less current liabilities		<u>10,146</u>	<u>4,814</u>
Creditors: amounts falling due after more than one year			
Convertible debt		(325)	(325)
Other		(4,596)	(979)
	15	<u>(4,921)</u>	<u>(1,304)</u>
Net assets		<u><u>5,225</u></u>	<u><u>3,510</u></u>
Capital and reserves			
Ordinary share capital	18	523	320
Share premium account	19	4,586	2,703
Capital redemption reserve	19	45	45
Shares to be issued	19	—	600
Revaluation reserve	19	518	—
Profit and loss account	19	(447)	(158)
Shareholders' funds		<u><u>5,225</u></u>	<u><u>3,510</u></u>

These financial statements were approved by the Board of Directors on 27 February 2006.

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 year ended 31 December 2005

	<i>Note</i>	2005 £000	<i>2004</i> <i>£000</i>
Net cash inflow from operating activities	21	<u>921</u>	<u>84</u>
Returns on investments and servicing of finance			
Interest received		36	21
Interest paid		<u>(658)</u>	<u>(95)</u>
Net cash outflow from returns on investments and servicing of finance		(622)	(74)
Taxation		(186)	(20)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,596)	(1,205)
Sale of investment properties		<u>1,170</u>	<u>—</u>
Net cash outflow from capital expenditure and financial investment		(3,426)	(1,205)
Acquisitions and disposals			
Purchase of subsidiary undertakings (3147398 Limited acquisition)		(2,254)	(218)
Payment of exchange deposit for 3147398 Limited acquisition		—	(300)
Payment of amounts owed by subsidiaries to vendors		(66)	(837)
Net cash from purchase of subsidiaries		<u>—</u>	<u>763</u>
Net cash outflow from acquisitions and disposals		(2,320)	(592)
Financing			
Proceeds from issue of shares		1,061	2,819
Expenses of issue of shares		(37)	(256)
Receipts from borrowing		11,207	3,000
Repayments of borrowing		(6,305)	(1,728)
Funds deposited with lenders		(1,263)	—
Finance lease		<u>7</u>	<u>—</u>
Net cash inflow from financing		4,670	3,835
(Decrease)/increase in cash	22	<u>(963)</u>	<u>2,028</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2005

	<i>2005</i>	<i>2004</i>
	£000	£000
Profit/(loss) on ordinary activities after taxation	14	(67)
Unrealised surplus on revaluation of investment properties	708	—
Total recognised gains and losses for the year	722	(67)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1 Turnover

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

2 Administrative expenses

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

	2005	<i>2004</i>
	£000	<i>£000</i>
Auditors' remuneration		
— Group audit fees (company: £13,000 (2004: £7,000))	24	15
— Taxation compliance	9	8
Depreciation	25	10
Amortisation	6	4
Operating lease payments	14	5
	<u>14</u>	<u>5</u>

In addition, the group's auditors charged £3,000 (2004: £1,000) in connection with the issue of shares as part consideration for the acquisition of property, and, in respect of the period from 16 February 2004 to 31 December 2004, £30,000 in connection with the group's flotation on the London Stock Exchange and £26,000 in connection with the acquisition of 3147398 Limited.

3 Directors and employees

Staff costs during the period were as follows:

	2005	<i>2004</i>
	£000	<i>£000</i>
Wages and salaries	199	91
Social security costs	23	5
	<u>222</u>	<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 8.

4 Net interest payable and similar charges

	2005	<i>2004</i>
	£000	<i>£000</i>
Interest payable on bank loans	(853)	(114)
Interest receivable	53	21
	<u>(800)</u>	<u>(93)</u>

5 Tax on loss on ordinary activities

The tax charge/(credit) represents:

	2005	2004
	£000	£000
United Kingdom corporation tax at 19%	—	—
Adjustment in respect of prior periods of subsidiaries	6	(10)
Total current tax	6	(10)
Deferred tax	—	(20)
Tax on profit on ordinary activities	6	(30)

Tax losses of £103,000 remain available to offset against future 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:

	2005	2004
	£000	£000
Profit/(loss) on ordinary activities before tax	20	(97)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	4	(18)
Capital allowances in excess of depreciation	(16)	(3)
Sundry adjustments	(1)	1
Adjustment in respect of prior periods of subsidiaries	6	(10)
Adjustment in respect of capital gains on disposal of investment property	13	—
Losses carried forward	—	20
Current tax charge for the period	6	(10)

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 £289,000 (2004: £158,000).

7 Earnings per share

The calculation of earnings per share is based on the profit retained for the year and on the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the basic earnings per share adjusted for the issue of shares on the assumed conversion of the convertible loan notes (see note 15).

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

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

	2005			2004		
	<i>Earnings £000</i>	<i>Weighted average number of shares</i>	<i>Earnings per share amount</i>	<i>Earnings £000</i>	<i>Weighted average number of shares</i>	<i>Loss per share amount</i>
Basic earnings/(loss) per share	14	44,477,097	0.03p	(67)	18,927,814	(0.36p)
Dilutive effect of conversion of convertible loan notes	—	2,954,545				
Diluted earnings per share	14	47,431,642	0.03p			

8 Intangible fixed assets

	<i>Goodwill on consolidation £000</i>	<i>Negative goodwill £000</i>	<i>Total £000</i>
Group Cost			
At 1 January 2005	152	(906)	(754)
Adjustments	—	3	3
Disposals*	(25)	—	(25)
At 31 December 2005	127	(903)	(776)
Amortisation			
At 1 January 2005	4	—	4
Provided during the year	6	—	6
At 31 December 2005	10	—	10
Net book amount at 31 December 2005	117	(903)	(786)
Net book amount at 31 December 2004	148	(906)	(758)

* Written off on disposal of fixed asset investment property held by subsidiary undertaking.

9 Tangible fixed assets

	<i>Investment properties £000</i>	<i>Leasehold improve- ments £000</i>	<i>Office equipment £000</i>	<i>Motor vehicles £000</i>	<i>Total £000</i>
Group					
Cost or valuation					
At 1 January 2005	5,475	70	39	—	5,584
Additions	5,047	—	3	10	5,060
Disposals	(1,100)	—	—	—	(1,100)
Surplus on revaluation	708	—	—	—	708
At 31 December 2005	10,130	70	42	10	10,252
Accumulated depreciation					
At 1 January 2005	—	6	4	—	10
Charge for the period	—	14	10	2	26
At 31 December 2005	—	20	14	2	36
Net book amount					
At 31 December 2005	10,130	50	28	8	10,216
At 31 December 2004	5,475	64	35	—	5,574
Company					
Cost or valuation					
At 1 January 2005	1,275	70	39	—	1,384
Additions	5,047	—	3	10	5,060
Surplus on revaluation	518	—	—	—	518
At 31 December 2005	6,840	70	42	10	6,962
Accumulated depreciation					
At 1 January 2005	—	6	4	—	10
Charge for the period	—	14	10	2	26
At 31 December 2005	—	20	14	2	36
Net book amount					
At 31 December 2005	6,840	50	28	8	6,926
At 31 December 2004	1,275	64	35	—	1,374

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	10,130	6,840

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 2005	9,508	6,322

In accordance with SSAP 19, 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 2005 has been carried out by the directors on the basis of open market value and included all the investment properties held at that date.

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</i>	
	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
Company		
Cost		
At 1 January 2005	4,164	—
Additions	—	4,164
Adjustments	(9)	—
At 31 December 2005	4,155	4,164

At 31 December 2005 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 Stocks

	<i>Group</i>	<i>Group</i>
	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
Properties held for trading	9,703	9,655

12 Debtors

	<i>Group</i>		<i>Company</i>	
	2005	2004	2005	2004
	£000	£000	£000	£000
Trade debtors	140	215	61	34
Amounts owed by subsidiary undertakings	—	—	304	505
Other debtors	—	15	—	13
Deferred tax asset	20	20	20	20
Prepayments and accrued income	29	84	19	7
	189	334	404	579

The deferred tax asset relates to losses carried forward of £103,000 (2004: £106,000) at a tax rate of 19%. There is sufficient expectation of future taxable profits which will be available to offset these losses.

13 Investments

	<i>Group</i>		<i>Company</i>	
	2005	2004	2005	2004
	£000	£000	£000	£000
Amounts held in deposit accounts with lenders	1,282	—	—	—

The amounts held in the above deposit accounts are charged as security in respect of loans from the lenders. The deposit accounts are interest bearing.

14 Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank loans (note 16)	1,127	6,272	97	24
Amounts owed to subsidiary undertakings	—	—	1,802	—
Trade creditors	45	65	23	61
Other creditors	121	2,162	121	2,095
Corporation tax	—	176	—	—
Social security and taxation	16	3	12	—
Accruals and deferred income	527	601	195	367
Due under finance leases	4	—	4	—
	1,840	9,279	2,254	2,547

Bank loans are secured against the group's property assets and current asset investments.

15 Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank loans (note 16)	13,931	3,689	4,668	997
Convertible debt	325	325	325	325
Less: deferred arrangement costs	(236)	(61)	(72)	(18)
	14,020	3,953	4,921	1,304

Bank loans are secured against the group's property asset and current asset investments.

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 liquidity risk and interest rate 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.

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 2005 was as follows:

	<i>Group</i>		<i>Company</i>	
	2005	2004	2005	2004
	£000	£000	£000	£000
In less than one year				
Bank borrowings	1,127	6,272	97	24
In more than one year but less than two years				
Bank borrowings	382	176	103	26
In more than two years but less than five years				
Bank borrowings	1,172	557	331	89
In more than five years				
Bank borrowings	12,377	2,956	4,234	882
	15,058	9,961	4,765	1,021
Deferred arrangement costs	(236)	(61)	(72)	(18)
	14,822	9,900	4,693	1,003

Borrowing facilities

The group has no undrawn committed borrowing facilities at 31 December 2005.

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 2005 was:

	<i>Fixed interest %</i>	<i>Expiry date</i>	<i>Group 2005 £000</i>	<i>Group 2004 £000</i>
Fixed until March 2006	6.250	March 2006	784	799
Fixed until October 2019	6.230	October 2019	996	1,020
Fixed until January 2015	6.295	December 2019	1,909	2,040
Fixed until January 2030	6.040	January 2030	7,600	—
Fixed until March 2030	6.270	March 2030	923	—
Fixed until May 2030	5.780	May 2030	2,846	—
Repaid 5 January 2005			—	6,102
			<u>15,058</u>	<u>9,961</u>
Deferred arrangement costs			(236)	(61)
			<u>14,822</u>	<u>9,900</u>

For the loan which expires in December 2019, the current fixed rate arrangements end on the date specified above and interest is then either paid on a floating rate basis, or a renegotiated fixed rate basis to be decided. The weighted average interest rate on the fixed rate debt was 6.01% (2004: 6.26%) and the weighted average period for which the borrowing was fixed at 31 December 2005 was 22.9 years (2004: 11.5 years).

Fair value of financial liabilities

	<i>Book value 2005 £000</i>	<i>Fair value 2005 £000</i>	<i>Fair value adjustment 2005 £000</i>
Fixed rate loans	<u>15,058</u>	<u>15,843</u>	785
Tax at 30%			<u>(236)</u>
Post tax fair value adjustment			<u>549</u>

The fair values were calculated by the directors as at 31 December 2005 and reflect the replacement value of the financial investments used to manage the group's exposure to adverse interest rate movements. 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 on acquisition of a subsidiary, to their market value in accordance with FRS 19.

The total amount unprovided, at an estimated tax rate of 30%, for the year ended 31 December 2005 is £1,359,000 (2004: £1,140,000).

18 Share capital

	<i>2005</i> <i>Number</i> <i>of shares</i>	<i>2004</i> <i>Number</i> <i>of shares</i>	<i>2005</i> <i>£000</i>	<i>2004</i> <i>£000</i>
Authorised				
Ordinary shares of 1p each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid				
Ordinary shares of 1p each	<u>52,316,197</u>	<u>31,984,615</u>	<u>523</u>	<u>320</u>

The excess of the total consideration for shares issued of £2,123,000 over the nominal value of £203,000 has been credited to the share premium account.

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

On 9 March 2005 1,450,980 ordinary shares of 1p each were issued for £185,000 as part consideration for the acquisition of 158 The Marlowes, Hemel Hempstead.

On 18 March 2005 98,039 ordinary shares of 1p each were issued for £12,500 as part consideration for services in connection with the acquisition of 3147398 Limited.

On 18 March 2005 42,549 ordinary shares of 1p each were issued for £5,425 as part consideration for services in connection with the acquisition of 158 The Marlowes, Hemel Hempstead.

On 27 May 2005 1,999,400 ordinary shares of 1p each were issued for £214,936 as part consideration for the acquisition of the KBR portfolio of five commercial properties in Newport, Portsmouth, Wakefield, Ilfracombe and Manchester.

On 4 July 2005 6,000,000 ordinary shares of 1p each were issued for £600,000 in cash.

On 1 August 2005 230,093 ordinary shares of 1p each were issued for £24,735 as part deferred consideration in connection with the acquisition of 19-21 Kirkgate, Wakefield.

On 4 August 2005 156,863 ordinary shares of 1p each were issued for £20,000 as consideration for services in connection with the acquisition of the KBR portfolio.

On 29 September 2005 4,500,000 ordinary shares of £1 each were issued for £461,250 in cash.

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>Revaluation reserve £000</i>	<i>Total £000</i>
Group						
At 1 January 2005	2,703	(67)	45	600	—	3,281
Profit for the period	—	14	—	—	—	14
Premium on issue of shares (note 18)	1,920	—	—	—	—	1,920
Expenses of share issues	(37)	—	—	—	—	(37)
Shares issued 7 January 2005	—	—	—	(600)	—	(600)
Surplus on revaluation of investment properties	—	—	—	—	708	708
At 31 December 2005	4,586	(53)	45	—	708	5,286

	<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>Revaluation reserve £000</i>	<i>Total £000</i>
Company						
At 1 January 2005	2,703	(158)	45	600	—	3,190
Loss for the period	—	(289)	—	—	—	(289)
Premium on issue of shares (note 18)	1,920	—	—	—	—	1,920
Expenses of share issues	(37)	—	—	—	—	(37)
Shares issued 7 January 2005	—	—	—	(600)	—	(600)
Surplus on revaluation of investment properties	—	—	—	—	518	518
At 31 December 2005	4,586	(447)	45	—	518	4,702

20 Reconciliation of movements in shareholders' funds for the year ended 31 December 2005.

	2005 £000	<i>2004 £000</i>
Profit/(loss) for the period	14	(67)
Issue of ordinary shares	203	320
Premium on issue of ordinary shares	1,883	2,703
Shares to be issued	—	600
Capital redemption reserve	—	45
Shares issued on 7 January 2005	(600)	—
Surplus on revaluation of investment properties	708	—
Net increase in shareholders' funds	2,208	3,601
Shareholders' funds brought forward	3,601	—
Shareholders' funds carried forward	5,809	3,601

21 Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	2005	<i>2004</i>
	£000	<i>£000</i>
Operating profit/(loss)	775	(4)
Depreciation	25	10
Amortisation	6	4
Increase in stock	(48)	—
Decrease/(increase) in debtors	103	(100)
Increase in creditors	60	174
Net cash inflow from operating activities	<u>921</u>	<u>84</u>

22 Reconciliation of net cash flow to movement in net debt

	2005	<i>2004</i>
	£000	<i>£000</i>
(Decrease)/increase in cash in the period	(963)	2,028
Net cash inflow from financing	<u>(3,620)</u>	<u>(1,272)</u>
Change in net debt resulting from cash flows	(4,583)	756
Loans acquired with subsidiaries	—	(8,949)
Other non-cash movements	<u>(20)</u>	<u>(4)</u>
Change in net debt	(4,603)	(8,197)
Opening net debt	<u>(8,197)</u>	—
Closing net debt	<u>(12,800)</u>	<u>(8,197)</u>

23 Analysis of movement in net debt

	<i>At</i>		<i>At</i>
	<i>31 December</i>		<i>31 December</i>
	<i>2004</i>	<i>Cash flow</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
		<i>Non-cash</i>	
		<i>changes</i>	
		<i>£000</i>	
Cash at bank	2,028	(963)	1,065
Investments	—	1,282	1,282
Debt due within one year	(6,272)	5,145	(1,127)
Debt due after one year	(3,953)	(10,047)	(14,020)
	<u>(8,197)</u>	<u>(4,583)</u>	<u>(12,800)</u>

24 Major non-cash transactions

As disclosed in note 18, the group issued shares during the period as part consideration for the acquisition of investment properties. The total consideration comprising shares issued for this purpose was £424,667 and the total cost of the related investment properties was £5,039,000.

25 Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £17,000 (2004: £14,000).

26 Contingent liabilities

There were no contingent liabilities at 31 December 2005 or 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 2005 or 31 December 2004.

28 Pension scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2005 or 31 December 2004.

29 Post balance sheet events

On 9 February 2006 the company exchanged unconditional contracts on freehold property in West Bromwich, for a consideration of £1,100,000, to be satisfied as to £1,000,000 in cash and £100,000 by the issue of 1,000,000 ordinary shares of 1p each on completion.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2006 Annual General Meeting of Real Estate Investors PLC will be held at Smith & Williamson, 25 Moorgate, London EC2R 6AY on 10 May 2006 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 2005, and the reports of the directors and auditors thereon.
2. To re-elect Mr P H Lewin, who retires by rotation in accordance with the Company's Articles of Association, as director.
3. To reappoint Grant Thornton UK LLP as 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

22 March 2006

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 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, specified that only those shareholders registered in the register of members of the Company at close of business on 8 May 2006 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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