

**REAL ESTATE INVESTORS PLC**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2006**

Company No 5045715

# REAL ESTATE INVESTORS PLC

## FINANCIAL STATEMENTS

For the year ended 31 December 2006

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Company registration number: 5045715

Registered office: 1 Westminster Way  
OXFORD  
OX2 0PZ

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

Secretary: M H P Daly

Auditors: Grant Thornton UK LLP  
Chartered Accountants  
Registered Auditors  
1 Westminster Way  
OXFORD  
OX2 0PZ

Solicitors: H B J Gateley Wareing  
One Eleven  
Edmund Street  
BIRMINGHAM  
B3 2HJ

Nominated adviser: Smith & Williamson Corporate Finance Limited  
25 Moorgate  
LONDON  
EC2R 6AY

Broker: Kaupthing Singer & Friedlander  
One Hanover Street  
LONDON  
W1S 1AX

Bankers: Barclays Bank plc  
1st Floor  
99 Hatton Garden  
LONDON  
EC1 8DN

# **REAL ESTATE INVESTORS PLC**

## **FINANCIAL STATEMENTS**

For the year ended 31 December 2006

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Registrars:	Capita Registrars The Registry 34 Beckenham Road BECKENHAM Kent BR3 4TU
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# **REAL ESTATE INVESTORS PLC**

## **FINANCIAL STATEMENTS**

For the year ended 31 December 2006

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It gives me considerable pleasure to be able to report to you on a year of tremendous progress and advancement in REI's activities.

In my statement that accompanied the 2006 interim results, I commented that we had created the solid platform necessary to enable further growth and the rapid expansion of the business. Indeed, following the £2.7 million share subscription and the appointment to the board of Paul Bassi and Marcus Daly, we were pleased to announce, on 20 December 2006, the successful completion of a £25 million institutional fundraising, which was oversubscribed.

We are greatly encouraged by the level of support from our new investors which will enable us to concentrate on implementing our strategy of building a £150 million portfolio over the next 18 months. The background and reasons for the £25 million placing were well covered in the 20 December announcement and the board, headed by our new Chief Executive and major shareholder Paul Bassi, has moved quickly to take advantage of market opportunities.

I am pleased to report that our gross property assets increased over the year by 21% from £19.8 million to £23.9 million. Rental income for 2006 was £1.4 million compared to £1.2 million for 2005 and net assets increased from £5.8 million to £33.3 million. The reported net asset value per share has been diluted to 9.8 p per share mainly as a result of the share issues, but this figure excludes a significant increase in the value of our trading stock, which is not revalued in the accounts.

Whilst the results for the year show a loss of £513,000, this was mainly as a result of a deficit on property revaluation of £272,000, director's bonus and compensation of £160,000 and a provision in respect of share warrants valued at £121,000. We started the new financial year with £26.9 million of cash balances, two major acquisitions and a market capitalisation of £40 million.

Consistent with our strategy of concentrating our business in the Midlands and Central England, we announced at the beginning of February this year our first acquisition since the year end fundraising. We purchased, off market, the freehold interest in 102/106 Colmore Row and 1-6 Bennetts's Hill, Birmingham for a cash consideration of £6.3 million. This prime city centre property comprises 30,000 square feet of offices and presently produces £200,000 in annual rental. We shall be refurbishing the vacant space and anticipate a strong demand from quality tenants.

On 19 March 2007 we announced our second acquisition – we purchased Avon House, Buntsford Gate, Bromsgrove for a cash consideration of £5.2 million. The property consists of approximately 26,000 square feet of modern high quality offices, close to the Midlands motorway network and within easy access to Birmingham City centre and its international airport. The property is currently part let, with tenant interest already expressed in the void space. Once fully let we anticipate that the property will generate in excess of £400,000 rent per annum. These deals are the first examples of the major opportunities available to us now that the group has significant resources with which it is able to make acquisitions for cash.

We made a number of purchases and a disposal in the first six months of 2006, which were the subject of detailed coverage in our June interim statement. These transactions increased the group's portfolio to £28 million and are performing well.

In order to focus on our preferred area of operations, we have decided to transfer our headquarters to West Bromwich, where REI's activities will be supported by Bond Wolfe Auctioneers and Bigwood Chartered Surveyors, of which Paul Bassi remains Chairman.

# REAL ESTATE INVESTORS PLC

## CHAIRMAN'S STATEMENT

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Marcus Daly, who joined the board in June 2006, has been appointed full time Finance Director, effective from 1 January 2007.

It has been an eventful and exciting year for Real Estate Investors PLC, one in which the group's market capitalisation has advanced to £40 million and the demanding targets set at flotation in June 2004 have been achieved. Our strong, institutional shareholder base and the cash resources now available to the group will enable the board to take forward its stated strategy of creating a substantial Central England focused listed property company and delivering strong returns for shareholders.

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

I recommend that you visit our interactive website [www.reiplc.com](http://www.reiplc.com) where financial and corporate information may be viewed. Continuously updated information and news on REI can be accessed and company announcements emailed to you.

I am looking forward to writing to you again shortly.

Peter H Lewin

Chairman  
3 April 2007

### **Directors' statement on corporate governance**

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

### **Application of principles**

#### **Directors**

The composition of the Board is set out on page 7. The Board currently comprises two non-executive directors and two executive directors. The Board is seeking to appoint a third 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 non-executive deputy chairman and the finance director. The committee overviews the adequacy of the group's internal controls, accounting policies and financial reporting and provides a forum through which the group's external auditor reports to the non-executive deputy 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.

# REAL ESTATE INVESTORS PLC

## DIRECTORS' REPORT

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The directors present their report together with the audited financial statements for the year ended 31 December 2006.

### Principal activity

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

### Business review

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

Full details of changes in share capital during the period are shown in note 19 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 2006 are disclosed in the directors' remuneration report. The directors who served during the period were as follows:

P H Lewin	Chairman - Non-Executive
J J Jack	Deputy Chairman - Non-Executive
P P S Bassi	Chief Executive - appointed 29 June 2006
M H P Daly	Finance Director - appointed 29 June 2006

M T Lewin resigned as a director on 11 September 2006.

J J Jack will retire and submit himself for re-election, and P P S Bassi and M H P Daly, who were appointed during the year, will retire and submit themselves for re-election at the forthcoming Annual General Meeting.

### Substantial shareholdings

The company has been notified of the following interests that represent 3% or more of the issued share capital of the company at 3 April 2007.

	Number	%
P P S Bassi	42,475,000	12.47
Caledonia Investments PLC	39,475,000	11.59
Blackrock Investment Management	30,475,000	8.94
Artemis Investment Management	29,975,000	8.80
F&C Asset Management	27,000,000	7.92
GAM	21,000,000	6.16
Goldman Sachs & Co	13,932,000	4.09
P H Lewin	10,250,000	3.01

### 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 2006 trade creditors represented 35 days (2005: 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 company completed the purchase on 26 March 2007 of freehold property at 102/106 Colmore Row and 1-6 Bennetts Hill, Birmingham for a consideration of £6.3 million and of Avon House, Bromsgrove for a consideration of £5.2 million satisfied in cash.



### **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 regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- ?? prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

In so far as the directors are aware:

- ?? there is no relevant audit information of which the company's auditor is unaware; and
- ?? the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

### **International Financial Reporting Standards**

The London Stock Exchange has announced that AIM listed groups will have to publish financial information under International Financial Reporting Standards (IFRS) for accounting periods commencing on or after 1 January 2007. Real Estate Investors PLC expects to report under IFRS for the financial year ending 31 December 2007, including the interim results for the half year to 30 June 2007.

The process of evaluating the impact of the changes that will result, both in terms of the effect of the group's results and its financial position, is underway.

### **Auditor**

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

BY ORDER OF THE BOARD

M H P Daly

Secretary

3 April 2007

# REAL ESTATE INVESTORS PLC

## 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 deputy 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 2006 was as follows:

	Salary £000	Fees £000	Bonus £000	Benefit in kind £000	Compensation - £000	2006 Total £000	2005 Total £000
P H Lewin	40	8	80	10	80	218	90
J J Jack	2	10	-	-	-	12	10
P P S Bassi	-	20	-	-	-	20	-
M H P Daly	-	17	-	-	-	17	-
M T Lewin	50	-	-	-	-	50	75
	<u>92</u>	<u>55</u>	<u>80</u>	<u>10</u>	<u>80</u>	<u>317</u>	<u>175</u>

### 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 2006.

	2006 Ordinary shares of 1p  Number	Percentage of issued share capital  %	2005 Ordinary shares of 1p  Number	Percentage of issued share capital  %
P H Lewin	10,250,000	3.01	6,250,000	11.9
J J Jack	2,000,000	0.59	750,000	1.43
P P S Bassi	42,475,000	12.47	11,175,000	14.36
M H P Daly	3,850,000	1.13	1,350,000	1.73

The directors were granted share warrants on 29 June 2006 in respect of 10,637,500 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable 2 years from the date of the grant of the option and will lapse within 7 years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant, in proportion to their shareholding and are exercisable at 12p.

APPROVED BY THE BOARD OF DIRECTORS – J J JACK

Chairman, remuneration committee

3 April 2007

# **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF REAL ESTATE INVESTORS PLC**

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We have audited the group and parent company financial statements (the "financial statements") of Real Estate Investors Plc for the year ended 31 December 2006 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 31. The 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the directors and auditor**

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 whether in our opinion the information given the Directors' Report is consistent with the financial statements.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's 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 group's and 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.

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF  
REAL ESTATE INVESTORS PLC**

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**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 2006 and the loss of the group for the year then ended;
-  the financial statements have been properly prepared in accordance with the Companies Act 1985; and
-  the information given in the Directors' Report is consistent with the financial statements.

**GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS**

**OXFORD  
3 April 2007**

### **Accounting policies**

The financial statements have been prepared under the historical cost convention and are in accordance with the Companies Act 1985 and applicable accounting standards except as noted below in respect of the true and fair override in respect of Investment Properties.

The group's principal accounting policies have remained unchanged from the previous year, apart from the adoption of FRS 20 'Share –Based Payments'. FRS 20 requires the fair value of equity-settled Share-Based payments to be determined at the date of grant and is recognised on a straight line basis over the vesting period based on the group's estimated number of warrants that will eventually vest.

### **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 2006. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired are included from the date of acquisition.

### **Joint ventures**

The group financial statements incorporate the group's joint venture under the equity method of accounting.

### **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, unless a deficit results in a revaluation below cost in which case the amount of the deficit below cost is charged to the profit and loss account. 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	- five 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 on an undiscounted basis when it is more likely than not that they will be recovered. Deferred tax is measured using the rates of tax that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is not provided on gains recognised on revaluating investment properties. 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.

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade creditors are not interest bearing and are stated at their nominal value.

**Share warrants**

The company makes equity-settled share-based payments to its directors. The value of any shares or warrants granted is charged to the profit and loss account over the period the warrants vest, with a corresponding credit to reserves. When the share warrants are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

# REAL ESTATE INVESTORS PLC

## GROUP PROFIT AND LOSS ACCOUNT

For the year ended to 31 December 2006

	Note	2006 £000	2005 £000
<b>Turnover-continuing operations</b>	1	<b>1,324</b>	1,181
<b>-acquisitions</b>		<b>167</b>	-
<b>- share of joint venture</b>		<b>(66)</b>	-
<b>Group turnover</b>		<b>1,425</b>	1,181
Administration expenses	2	(875)	(441)
Other operating income		-	35
<b>Operating profit-continuing operations</b>		<b>544</b>	775
<b>-acquisitions</b>		<b>6</b>	-
		<b>550</b>	775
Surplus on disposal of fixed asset investment property		45	45
Share of operating profit of joint venture		57	-
Deficit on revaluation of investment properties		(272)	-
<b>Profit on ordinary activities before</b>		<b>380</b>	820
Net interest payable and similar charges-group		(892)	(800)
- joint venture		(48)	-
	4	<b>(940)</b>	(800)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(560)</b>	20
Tax credit/(charge) on (loss)/profit on ordinary activities	5	47	(6)
<b>(Loss)/profit on ordinary activities after taxation</b>	20	<b>(513)</b>	14
<b>Basic (loss)/earnings per share</b>	7	<b>(0.62p)</b>	0.03p
<b>Diluted (loss)/earnings per share</b>	7	<b>(0.62p)</b>	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.

# REAL ESTATE INVESTORS PLC

## GROUP BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Fixed assets</b>			
Intangible assets - goodwill	8	165	117
- negative goodwill	8	(903)	(903)
		<u>(738)</u>	<u>(786)</u>
Tangible assets	9	14,248	10,216
		<u>13,510</u>	<u>9,430</u>
Investment in joint venture		1,386	-
Share of gross assets		(1,062)	-
Share of gross liabilities	11	<u>324</u>	<u>-</u>
		13,834	9,430
<b>Current assets</b>			
Stock	12	9,703	9,703
Debtors	13	488	189
Investments	14	435	1,282
Cash at bank		<u>26,889</u>	<u>1,065</u>
		37,515	12,239
<b>Creditors: amounts falling due within one year</b>	15	(1,162)	(1,840)
<b>Net current assets</b>		<u>36,353</u>	<u>10,399</u>
<b>Total assets less current liabilities</b>		<u>50,187</u>	<u>19,829</u>
<b>Creditors: amounts falling due after more than one year</b>			
Convertible debt		(325)	(325)
Other		<u>(16,545)</u>	<u>(13,695)</u>
	16	<u>(16,870)</u>	<u>(14,020)</u>
<b>Net assets</b>		<u>33,317</u>	<u>5,809</u>
<b>Capital and reserves</b>			
Called up share capital	19	3,407	523
Share premium account	20	29,472	4,586
Capital redemption reserve	20	45	45
Other reserves	20	121	-
Revaluation reserve	20	838	708
Profit and loss account	20	<u>(566)</u>	<u>(53)</u>
<b>Shareholders' funds</b>	21	<u>33,317</u>	<u>5,809</u>

The financial statements were approved by the Board of Directors on 3 April 2007.

Signed on behalf of the Board of directors.

**P H Lewin - Chairman**

**M H P Daly – Finance Director**

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



# REAL ESTATE INVESTORS PLC

## COMPANY BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
<b>Fixed assets</b>			
Tangible assets	9	8,516	6,926
Investments	10	5,204	4,155
		<u>13,720</u>	<u>11,081</u>
<b>Current assets</b>			
Debtors	13	690	404
Cash at bank		26,688	915
		<u>27,378</u>	<u>1,319</u>
<b>Creditors: amounts falling due within one year</b>	15	(2,430)	(2,254)
<b>Net current assets/(liabilities)</b>		<u>24,948</u>	<u>(935)</u>
<b>Total assets less current liabilities</b>		<u>38,668</u>	<u>10,146</u>
<b>Creditors: amounts falling due after more than one year</b>			
Convertible debt		(325)	(325)
Other		(5,941)	(4,596)
	16	<u>(6,266)</u>	<u>(4,921)</u>
<b>Net assets</b>		<u>32,402</u>	<u>5,225</u>
<b>Capital and reserves</b>			
Ordinary share capital	19	3,407	523
Share premium account	20	29,472	4,586
Capital redemption reserve	20	45	45
Other reserves	20	121	-
Revaluation reserve	20	319	518
Profit and loss account	20	(962)	(447)
<b>Shareholders' funds</b>		<u>32,402</u>	<u>5,225</u>

These financial statements were approved by the Board of Directors on 3 April 2007.

Signed on behalf of the Board of Directors

**P H Lewin - Chairman**

**M H P Daly – Finance Director**

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

# REAL ESTATE INVESTORS PLC

## GROUP CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
<b>Net cash inflow from operating activities</b>	22	<u>528</u>	<u>921</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		90	36
Interest paid		<u>(1,030)</u>	<u>(658)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(940)</u>	<u>(622)</u>
<b>Taxation</b>		-	(186)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(2,011)	(4,596)
Sale of investment properties		456	1,170
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(1,555)</u>	<u>(3,426)</u>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(349)	(2,254)
Investment in joint venture		(224)	-
Payment of amounts owed by subsidiaries to vendors		(247)	(66)
Net cash from purchase of subsidiaries		30	-
<b>Net cash outflow from acquisitions and disposals</b>		<u>(790)</u>	<u>(2,320)</u>
<b>Management of liquid resources</b>			
Treasury deposits placed		(24,750)	-
		<u>(24,750)</u>	<u>-</u>
<b>Financing</b>			
Proceeds from issue of shares		27,840	1,061
Expenses of issue of shares		(1,071)	(37)
Receipts from borrowing		1,752	11,207
Repayments of borrowing		(784)	(6,305)
Funds deposited with lenders		847	(1,263)
Finance lease taken out		-	7
Finance lease repaid		(3)	-
<b>Net cash inflow from financing</b>		<u>28,581</u>	<u>4,670</u>
<b>Increase/(decrease) in cash</b>	23	<u>1,074</u>	<u>(963)</u>

# REAL ESTATE INVESTORS PLC

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2006

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	<b>2006</b>	2005
	<b>£000</b>	£000
(Loss)/profit on ordinary activities after taxation	<b>(513)</b>	14
Unrealised surplus on revaluation of investment properties	<b>130</b>	708
<b>Total recognised (losses) and gains for the year</b>	<b><u>(383)</u></b>	<b><u>722</u></b>

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

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 1 Turnover

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

### 2 Administrative expenses

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

	2006 £000	2005 £000
Fees payable to the company's auditor for the audit of the company's financial statements	24	24
Fees payable to the company's auditor for other services		
- tax compliance	11	9
- other services	6	3
Depreciation	25	25
Amortisation	6	6
Operating lease payments	25	14

### 3 Directors and employees

Staff costs during the period were as follows:

	2006 £000	2005 £000
Wages and salaries	190	199
Compensation	80	-
Social security costs	13	23
	283	222

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.

### 4 Net interest payable and similar charges

	2006 £000	2005 £000
Interest payable on bank loans	(1,030)	(853)
Interest receivable	90	53
	(940)	(800)

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 5 Tax on loss on ordinary activities

The tax (credit)/charge represents:

	2006 £000	2005 £000
United Kingdom corporation tax at 19%	-	-
Adjustment in respect of prior periods of subsidiaries	-	6
Total current tax	-	6
Deferred tax	(47)	-
Tax on profit on ordinary activities	(47)	6

Tax losses of £355,000 (2005: £103,000) remain available to offset against future profits.

No provision has been made for deferred tax on gains recognised on revaluing investment properties – (see note 18).

### 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:

	2006 £000	2005 £000
(Loss)/profit on ordinary activities before tax	(560)	20
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	(106)	4
Capital allowances in excess of depreciation	34	(16)
Transfer re share warrants	23	-
Sundry adjustments	2	(1)
Adjustment in respect of prior periods of subsidiaries	-	6
Losses carried forward	47	-
Adjustment in respect of capital gains on disposal of investment property	-	13
Current tax charge for the period	-	6

### 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 £515,000 (2005: £289,000).

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 7 Earnings per share

The calculation of earnings per share is based on the result for the year and on the weighted average number of shares in issue during the year. The calculation of diluted earnings 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 16).

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

	Loss/ earnings £000	2006 Weighted average number of shares	Earnings per share amount	Earnings £000	2005 Weighted average number of shares	Earnings per share amount
Basic earnings/(loss) per share	<u>(513)</u>	<u>82,085,371</u>	<u>(0.62p)</u>	14	44,477,097	0.03p
Dilutive effect of conversion of convertible loan notes				-	2,954,545	
Diluted earnings per share				<u>14</u>	<u>47,431,642</u>	<u>0.03p</u>

The conversion of convertible loan notes and exercise of share warrants would not be dilutive to the loss per share.

### 8 Intangible fixed assets

	Goodwill on consolidation £000	Negative goodwill £000	Total £000
<b>Group</b>			
Cost			
At 1 January 2006	127	(903)	(776)
Additions	54	-	54
<b>At 31 December 2006</b>	<u>181</u>	<u>(903)</u>	<u>(722)</u>
Amortisation			
At 1 January 2006	10	-	10
Provided during the year	6	-	6
<b>At 31 December 2006</b>	<u>16</u>	<u>-</u>	<u>16</u>
<b>Net book amount at 31 December 2006</b>	<u>165</u>	<u>(903)</u>	<u>(738)</u>
<b>Net book amount at 31 December 2005</b>	<u>117</u>	<u>(903)</u>	<u>(786)</u>

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 9 Tangible fixed assets

	Investment properties £000	Leasehold improve- ments £000	Office equipment £000	Motor vehicles £000	Total £000
<b>Group</b>					
Cost or valuation:					
At 1 January 2006	10,130	70	42	10	10,252
Additions	4,711	-	-	-	4,711
Disposals	(411)	-	-	-	(411)
Revaluation	(243)	-	-	-	(243)
<b>At 31 December 2006</b>	<b>14,187</b>	<b>70</b>	<b>42</b>	<b>10</b>	<b>14,309</b>
Accumulated depreciation					
At 1 January 2006	-	20	14	2	36
Charge for the period	-	14	9	2	25
<b>At 31 December 2006</b>	<b>-</b>	<b>34</b>	<b>23</b>	<b>4</b>	<b>61</b>
<b>Net book amount:</b>					
<b>At 31 December 2006</b>	<b>14,187</b>	<b>36</b>	<b>19</b>	<b>6</b>	<b>14,248</b>
<b>At 31 December 2005</b>	<b>10,130</b>	<b>50</b>	<b>28</b>	<b>8</b>	<b>10,216</b>
<b>Company</b>					
Cost or valuation:					
At 1 January 2006	6,840	70	42	10	6,962
Additions	2,311	-	-	-	2,311
Disposals	(411)	-	-	-	(411)
Revaluation	(285)	-	-	-	(285)
<b>At 31 December 2006</b>	<b>8,455</b>	<b>70</b>	<b>42</b>	<b>10</b>	<b>8,577</b>
Accumulated depreciation					
At 1 January 2006	-	20	14	2	36
Charge for the period	-	14	9	2	25
<b>At 31 December 2006</b>	<b>-</b>	<b>34</b>	<b>23</b>	<b>4</b>	<b>61</b>
<b>Net book amount:</b>					
<b>At 31 December 2006</b>	<b>8,455</b>	<b>36</b>	<b>19</b>	<b>6</b>	<b>8,516</b>
<b>At 31 December 2005</b>	<b>6,840</b>	<b>50</b>	<b>28</b>	<b>8</b>	<b>6,926</b>

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

	<b>Investment properties</b>	
	<b>Group</b>	<b>Company</b>
	<b>£000</b>	<b>£000</b>
At valuation	<b>14,187</b>	<b>8,455</b>

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

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

	<b>Investment properties</b>	
	<b>Group</b>	<b>Company</b>
	<b>£000</b>	<b>£000</b>
Cost and net book amount at 31 December 2006	<b>13,621</b>	<b>8,629</b>

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 2006 has been carried out by Donaldsons, Chartered Surveyors on the basis of open market value.

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

	<b>Investment in subsidiary undertakings</b>	
	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Company</b>		
Cost		
At 1 January	<b>4,155</b>	4,164
Additions	<b>1,049</b>	-
Adjustments	-	(9)
<b>At 31 December</b>	<b>5,204</b>	<b>4,155</b>

At 31 December 2006 the company wholly owned the following subsidiaries:

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



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2006

**11 Acquisitions**

On 24 July 2006 the company acquired the whole issued share capital of Rightforce Limited. The acquisition 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.

	<b>Book value and fair value £000</b>
Investment property	2,400
Debtors	29
Cash at bank and in hand	30
Creditors	(339)
Borrowings	(1,125)
	<u>995</u>
Goodwill	54
	<u>1,049</u>
Satisfied by:	
Cash	349
Issue of shares	700
	<u>1,049</u>

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

	<b>£000</b>
Net cash inflow from operating activities	6
Financing activities	627
Payments of amounts to vendors	(247)
	<u>386</u>

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

	<b>£000</b>
Cash at bank and in hand acquired	30
Cash consideration	(349)
	<u>(319)</u>

On 5 April 2006 the group entered into a joint venture agreement to acquire a property at Menin Works, Mitcham. The investment in the joint venture represents:

	<b>£000</b>
Investment property	1,286
Revaluation surplus	100
Borrowings	(1,062)
	<u>324</u>

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 12 Stocks

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>
Properties held for trading	<b>9,703</b>	9,703

### 13 Debtors

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2006 £000</b>	<b>Company 2005 £000</b>
Trade debtors	<b>198</b>	140	<b>49</b>	61
Amounts owed by subsidiary undertakings	-	-	<b>423</b>	304
Other debtors	<b>148</b>	-	<b>137</b>	-
Deferred tax asset	<b>67</b>	20	<b>67</b>	20
Prepayments and accrued income	<b>75</b>	29	<b>14</b>	19
	<b>488</b>	189	<b>690</b>	404

The deferred tax asset relates to losses carried forward of £355,000 (2005: £103,000) at a tax rate of 19%. There is sufficient expectation of future taxable profits which will be available to offset these losses.

### 14 Investments

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2006 £000</b>	<b>Company 2005 £000</b>
Amounts held in deposit accounts with lenders	<b>435</b>	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.

### 15 Creditors: amounts falling due within one year

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2006 £000</b>	<b>Company 2005 £000</b>
Bank loans (note 17)	<b>370</b>	1,127	<b>90</b>	97
Amounts owed to subsidiary undertakings	-	-	<b>1,945</b>	1,802
Trade creditors	<b>83</b>	45	<b>71</b>	23
Other creditors	<b>96</b>	121	<b>103</b>	121
Corporation tax	<b>22</b>	-	-	-
Social security and taxation	<b>6</b>	16	<b>2</b>	12
Accruals and deferred income	<b>584</b>	527	<b>218</b>	195
Due under finance leases	<b>1</b>	4	<b>1</b>	4
	<b>1,162</b>	1,840	<b>2,430</b>	2,254

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

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 16 Creditors: amounts falling due after more than one year

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans (note 17)	<b>16,791</b>	13,931	<b>6,026</b>	4,668
Convertible debt	<b>325</b>	325	<b>325</b>	325
Less: deferred arrangement costs	<b>(246)</b>	(236)	<b>(85)</b>	(72)
	<b><u>16,870</u></b>	<u>14,020</u>	<b><u>6,266</u></b>	<u>4,921</u>

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

### 17 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 2006 was as follows:

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>	<b>Company 2006 £000</b>	<b>Company 2005 £000</b>
In less than one year				
Bank borrowings	<b>370</b>	1,127	<b>90</b>	97
In more than one year but less than two years				
Bank borrowings	<b>404</b>	382	<b>107</b>	103
In more than two years but less than five years				
Bank borrowings	<b>2,924</b>	1,172	<b>371</b>	331
In more than five years				
Bank borrowings	<b>13,463</b>	12,377	<b>5,548</b>	4,234
	<b>17,161</b>	15,058	<b>6,116</b>	4,765
Deferred arrangement costs	<b>(246)</b>	(236)	<b>(85)</b>	(72)
	<b>16,915</b>	14,822	<b>6,031</b>	4,693

### Borrowing facilities

The group has no undrawn committed borrowing facilities at 31 December 2006.

### 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 2006 was:

	<b>Fixed interest %</b>	<b>Expiry date</b>	<b>Group 2006 £000</b>	<b>Group 2005 £000</b>
Fixed until October 2019	6.230	October 2019	<b>970</b>	996
Fixed until January 2015	6.295	December 2019	<b>1,810</b>	1,909
Fixed until August 2028	6.550	August 2028	<b>879</b>	-
Fixed until January 2030	6.040	January 2030	<b>7,481</b>	7,600
Fixed until March 2030	6.270	March 2030	<b>903</b>	923
Fixed until May 2030	5.780	May 2030	<b>2,539</b>	2,846
Fixed until March 2031	5.470	March 2031	<b>825</b>	-
Variable rate/interest swap			<b>1,754</b>	-
Repaid			<b>-</b>	784
			<b>17,161</b>	15,058
Deferred arrangement costs			<b>(246)</b>	(236)
			<b>16,915</b>	14,822

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 6.00% (2005: 6.01%) and the weighted average period for which the borrowing was fixed at 31 December 2006 was 22.3 years (2005: 22.9 years).

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### Fair value of financial liabilities

	Book value 2006 £000	Fair value 2006 £000	Fair value adjustment 2006 £000
Fixed rate loans	17,161	18,137	976
Tax at 30%			(293)
Post tax fair value adjustment			683

The fair values were calculated by the directors as at 31 December 2006 and reflect the replacement value of the financial investments used to manage the group's exposure to adverse interest rate movements. Fair values were £549,000 less on a post-tax basis than book values at 31 December 2005.

### 18 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 2006 is £1,367,000 (2005: £1,359,000).

### 19 Share capital

	2006 Number of shares	2005 Number of shares	2006 £000	2005 £000
<b>Authorised:</b>				
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>
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each	<u>340,714,327</u>	<u>52,316,197</u>	<u>3,407</u>	<u>523</u>

The excess of the total consideration for shares issued of £25,957,000 over the nominal value of £2,884,000 has been credited to the share premium account.

On 9 March 2006 1,000,000 ordinary shares of 1p were issued for £100,000 as part consideration for the acquisition of a freehold property in West Bromwich.

On 26 June 2006 223,130 ordinary shares of 1p were issued for £23,130 as part consideration for services.

On 29 June 2006 22,250,000 ordinary shares of 1p were issued for £2,175,000 in cash.

On 29 June 2006 675,000 ordinary shares of 1p were issued for £67,500 as consideration for commission in connection with the share issue.

On 25 July 2006 1,250,000 ordinary shares of 1p were issued for £125,000 in cash.

On 25 July 2006 7,000,000 ordinary shares were 1p issued for £700,000 as part consideration for the acquisition of the share capital of Rightforce Limited.

On 2 August 2006 4,000,000 ordinary shares of 1p were issued for £400,000 in cash.

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

On 24 August 2006 2,000,000 ordinary shares were 1p issued for £200,000 as part consideration for the acquisition of a freehold property in Paisley.

On 15 December 2006 250,000,000 ordinary shares of 1p were issued for £25,000,000 in cash.

The directors were granted share warrants on 29 June 2006 in respect of 10,637,500 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable from two years from the date of the grant of the warrants and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant and are exercisable at 12p.

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

### 20 Movement in reserves

	Share premium account £000	Profit and loss account £000	Capital redemption reserve £000	Other reserve £000	Revaluation reserve £000	Total £000
<b>Group</b>						
At 1 January 2006	4,586	(53)	45	-	708	5,286
Loss for the period	-	(513)	-	-	-	(513)
Premium on issue of shares (note 19)	25,957	-	-	-	-	25,957
Expenses of share issues	(1,071)	-	-	-	-	(1,071)
Surplus on revaluation of investment properties	-	-	-	-	130	130
Transfer re share warrants	-	-	-	121	-	121
<b>At 31 December 2006</b>	<b>29,472</b>	<b>(566)</b>	<b>45</b>	<b>121</b>	<b>838</b>	<b>29,910</b>
	Share premium account £000	Profit and loss account £000	Capital redemption reserve £000	Other reserve £000	Revaluation reserve £000	Total £000
<b>Company</b>						
At 1 January 2006	4,586	(447)	45	-	518	4,702
Loss for the period	-	(515)	-	-	-	(515)
Premium on issue of shares (note 19)	25,957	-	-	-	-	25,957
Expenses of share issues	(1,071)	-	-	-	-	(1,071)
Deficit on revaluation of investment properties	-	-	-	-	(199)	(199)
Transfer re share warrants	-	-	-	121	-	121
<b>At 31 December 2006</b>	<b>29,472</b>	<b>(962)</b>	<b>45</b>	<b>121</b>	<b>319</b>	<b>28,995</b>

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 21 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
(Loss)/profit for the period	(513)	14
Issue of ordinary shares	2,884	203
Premium on issue of ordinary shares	24,886	1,883
Shares issued on 7 January 2005	-	(600)
Surplus on revaluation of investment properties	130	708
Transfer re share warrants	121	-
Net increase in shareholders' funds	27,508	2,208
Shareholders' funds brought forward	5,809	3,601
Shareholders' funds carried forward	33,317	5,809

### 22 Reconciliation of operating profit to net cash inflow from operating activities

	2006 £000	2005 £000
Operating profit	550	775
Depreciation	25	25
Amortisation	6	6
Transfer re share warrants	121	-
Increase in stock	-	(48)
(Increase)/decrease in debtors	(69)	103
(Decrease)/Increase in creditors	(105)	60
Net cash inflow from operating activities	528	921

### 23 Reconciliation of net cash flow to movement in net funds/(debt)

	2006 £000	2005 £000
Increase/(decrease) in cash in the period	1,074	(963)
Treasury deposits placed	24,750	-
Net cash inflow from financing	(2,940)	(3,620)
Change in net debt resulting from cash flows	22,884	(4,583)
Other non-cash movements	-	(20)
Change in net debt	22,884	(4,603)
Opening net debt	(12,800)	(8,197)
Closing net debt	10,084	(12,800)

# REAL ESTATE INVESTORS PLC

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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### 24 Analysis of movement in net debt

	At 31 December 2005 £000	Cash flow £000	At 31 December 2006 £000
Cash at bank(including treasury deposits)	1,065	25,824	26,889
Investments	1,282	(847)	435
Debt due within one year	(1,127)	757	(370)
Debt due after one year	(14,020)	(2,850)	(16,870)
	<u>(12,800)</u>	<u>22,884</u>	<u>10,084</u>

### 25 Major non-cash transactions

As disclosed in note 19, the group issued shares during the period as part consideration for the acquisition of investment properties and a subsidiary undertaking. The total consideration comprising shares issued for this purpose was £1,000,000 and the total cost of the related investment properties was £4,711,000.

### 26 Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £17,000 (2005: £17,000).

### 27 Contingent liabilities

There were no contingent liabilities at 31 December 2006 or 31 December 2005 with the exception of the provision for deferred tax (note 18).

### 28 Capital commitments

There were no capital commitments at 31 December 2006 or 31 December 2005.

### 29 Pension scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2006 or 31 December 2005.

### 30 Related party transactions

The group has taken advantage of the exemption contained in paragraph 3(c) of Financial Reporting Standard 8 in not disclosing transactions with other group companies.

During the period the group paid a consultancy fee of £12,500 for property advice to Bond Wolfe Assets Limited, a company in which P P S Bassi is a director and shareholder.

### 31 Post balance sheet events

The company completed the purchase on 26 March 2007 on freehold property at 102/106 Colmore Row and 1-6 Bennett's Hill, Birmingham for a consideration of £6.3 million and on Avon House, Bromsgrove for a consideration of £5.2 million satisfied in cash.



# REAL ESTATE INVESTORS PLC

## NOTICE OF ANNUAL GENERAL MEETING

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**Notice is hereby given that** the 2007 Annual General Meeting of Real Estate Investors PLC will be held at West Plaza, 8<sup>th</sup> Floor, 144 High Street, West Bromwich, West Midlands, B70 6JJ on 4 July 2007 at 11.00 am for the following purposes:

### As ordinary business

1. To receive and if thought fit adopt the audited financial statements for the year ended 31 December 2006, and the reports of the directors and the auditor thereon.
2. To re-elect J J Jack, who retires by rotation in accordance with the Company's Articles of Association, as director.
3. To re-elect P P S Bassi, who was appointed during the year and retires in accordance with the Company's Articles of Association, as director.
4. To re-elect M H P Daly, who was appointed during the year and retires in accordance with the Company's Articles of Association, as director.
5. To reappoint Grant Thornton UK LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the directors to fix their remuneration.

### As special business

6. That the directors be and they are hereby generally and unconditionally authorised (in substitution for all previous powers granted thereunder) to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) (the Act) up to an aggregate nominal amount of £1,135,000 provided that this authority shall expire on the earlier of the conclusion of the next Annual General Meeting to be held in 2008 or 15 months after the passing of this resolution.
7. That subject to the passing of the previous resolution the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:
  - i. to the allotment of equity securities in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly may be) to the respective Ordinary shares held by them and,
  - ii. to the allotment (other than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £340,700

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

By order of the Board

MHP Daly  
Secretary  
3 April 2007

*Registered Office:*  
1 Westminster Way,  
Oxford, OX2 0PZ

### 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 West Plaza, 8<sup>th</sup> Floor, 144 High Street, West Bromwich, West Midlands, B70 6JJ during normal business hours on weekdays (public holidays excepted) from the date of this Notice until the date of the Meeting and at the place of the Meeting from 15 minutes before the start of the Meeting until the conclusion of the Meeting.
  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 2 July 2007 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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