REI

REAL ESTATE INVESTORS PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

REAL ESTATE INVESTORS PLC

FINANCIAL STATEMENTS

For the year ended 31 December 2011

Company Registration Number:	5045715
Registered Office:	Cathedral Place, 3rd Floor 42-44 Waterloo Street Birmingham B2 5QB
Directors:	J R A Crabtree: Chairman J J Jack: Non Executive Deputy Chairman W Wyatt: Non Executive Director P P S Bassi CBE: Chief Executive M H P Daly: Finance Director
Secretary:	M H P Daly
Auditors:	Grant Thornton UK LLP Chartered Accountants Registered Auditor Enterprise House 115 Edmund Street Birmingham B3 2HJ
Solicitors:	H B J Gateley Wareing One Eleven Edmund Street Birmingham B3 2HJ
Nominated Adviser:	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
Broker:	Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
Bankers:	Lloyds Banking Group 55 Temple Row Birmingham B2 5LS
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

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Results for the year ended 31 December 2011

Financial Highlights

- Contracted rental income £6 million (2010: £4.0 million) - up 50%
- Rental income £3.9 million (2010: £3.3 million) – up 19%
- NAV per share 54.5p(2010: 65.0p)
- Net assets of £38.9 million (2010: £32.3 million)
- Triple NAV per share 54.7p (2010: 63.3p)
- Gross property assets valued at £71.2 million (2010: £56.5 million) – up 26%
- Investment property assets £63.4 million (2010: £50.5 million) – up 26%
- Cash at bank of £4.5million (2010: £11.8 million)
- Profit before tax excluding net property valuation and financial instrument fair value movements of £115,000 (2010: loss of £292,000)
- Loss on valuation of interest rate swaps £2.6 million (2010: £1.2 million)
- Loss before tax of £6.7 million (2010: £5.6 million)
- Loss on revaluation of investment properties of 6.2% or £4.2 million (2010: £4.1 million)
- Total acquisitions of investment property in the year of £17.3 million
- Loan to value 46% - net of cash
- £11.7 million fundraising in July 2011 – all invested during the year
- Intention to begin progressive dividend payments in H2 2012

Operational Highlights

- Overall occupancy level increased to 85%
- £20m renewal of facilities with Lloyds completed
- Selective disposals above book value such as the Tesco property at Chingford

Introduction

I am very pleased to be reporting Real Estate Investors plc's ("REI") results for the year ended 31 December 2011, a year which saw significant development on many fronts and the establishment of the Group as a leading regional property investment business with strong foundations.

The economic environment has remained fragile, of course, with markets in turmoil throughout 2011 and continuing concerns over renewed recession. Valuations in UK regions have continued to be depressed, reflected in the 6.2% loss on revaluation of our investment proprieties noted above.

The year in review

Depressed property valuations, of course, provide excellent opportunities for REI and we have acquired high quality assets, our purchases in many cases providing the comparable evidence which has informed the revaluation.
REI recorded a profit in 2011 before that revaluation and the loss on revaluation of our swap, an accounting provision, not a cash loss.

The year also saw a successful £11.7m fundraising bringing with it new investors whose support we were delighted to receive, together with a renewal of our £20m facility with Lloyds banking group.

At the extraordinary general meeting in July the Group received approval to consolidate the shares from 1p Ordinary shares to 10p Ordinary shares and to reduce the share premium account by way of a transfer to reserves in the sum of £47,154,000.

Dividend

Our contractual rental income rose 50% during the year. In the second half of 2012, your Board intends to introduce a dividend in respect of the current year and to propose a progressive dividend policy for future years.

Current year and prospects

We see further scope to improve our contracted rental income with year-end occupancy at 85% and the benefits of £13m of new purchases in the last quarter of 2011. The depressed economic conditions will continue to provide opportunities for acquisitions which meet our criteria. The success that management has achieved in renting void space is evidenced by contracted lettings; these will see capital growth returning to our portfolio. The Board is actively monitoring the eligibility of REI to convert to REIT status and will consider the new legislation in due course when it is finalised in 2012.

On behalf of my colleagues, I extend our thanks to our staff and advisers for their continued hard work and support. Finally, on 25 November 25 2011, Peter Lewin, our former Chairman and Chief Executive passed away. Peter made a very significant contribution to REI over the years. On behalf of the Board and staff of REI, we would like to extend our sincere condolences to Peter’s wife and family and also record our thanks for all that Peter has done for REI and its shareholders.

John Crabtree
Chairman
Date: 23 March 2012

Results for the year ended 31 December 2011

Overview

I am pleased to report an operating profit before tax, excluding net property valuations and financial instrument fair value movements of £115,000 (2010: loss of £292,000).

Property devaluations during the year of £4.2 million are a reflection of the negative economic backdrop, the lack of transactions and comparative evidence being obtained from predominantly distressed sales. In some cases our own purchases, albeit very attractive purchases, provide the negative comparable evidence in the short term.

The fair value movement charge on our financial instruments of £2.6 million is a reflection of the market's view of long term interest rates. It is a timing difference and not a cash item and we will continue to fix debt when it is appropriate.

We have experienced a series of unprecedented events during 2011 including the continuing political unrest in the Middle East, Eurozone crisis, UK riots, a negative UK economic backdrop and financial market turmoil. All these factors have had a significant impact on market confidence and activity, yet we have still made excellent progress during 2011. The key events for us during the year were:

- New property acquisitions of £17 million
- Contracted rental income rising by 50% to £6million
- Renewal of our £20 million facility with Lloyds Banking Group
- Cash generation sufficient to commence dividend payments in the second half of 2012

Our contracted rental income has further scope to improve to our estimated rental value of £7.0 million from the existing portfolio. Year end occupancy is 85%. This rising rental income is derived from the letting of existing property and new acquisitions of £17 million that met our criteria, namely:

- Kingston House in West Bromwich – acquired for £3.1m at a yield of 11% and let to The Secretary of State to 2019;

- Southgate Retail Park in Derby – acquired for £4.8m at a yield of 8.6% and let to, inter alia, Lidl, Dreams and Gym4All, with additional space to let;

- Peat House in Leicester – acquired for £4.4m at a yield of 11.6% and let to KPMG to 2015;

- Gateway House in Birmingham – acquired for £3.85m at a yield of 16.2% and let to a range of retail / commercial tenants, with additional space to let.

Since the year end we have also let the remaining space in Avon House, Bromsgrove at estimated rental value ('ERV').

The benefit of the rental income from these new lettings and acquisitions, will be reflected in 2012, as £13 million of purchases took place in September and December 2011, and will form the foundation for a dividend policy for 2012 and onwards.

The loss from our hedge is a non cash item which will recover once we see the inevitable rise in the unprecedented low interest rates; this has already improved by £400,000 as at 1 March 2012. The revaluation deficit is indicative of a lack of transactions and the comparable evidence created by our own opportunistic acquisitions. This figure includes £600,000 of Stamp Duty, legal and professional fees relating to our purchases throughout the year. Our property acquisitions in 2011 are included at cost, (except for Kingston House), and again will provide potential capital upside in 2012.

Sales

We will always make opportunistic sales. We sold a unit let to Tesco in Chingford for £960,000 together with a small development site, both above our book value. Since the year end we have sold further development land, again at a price above our book value.

Banking

New purchases during 2011 have been funded from existing cash, £11.7 million of new equity and the refinancing of our unencumbered and income producing assets. We also renewed our £20 million loan facility with Lloyds Banking Group for a term of 3 years on similar terms to the previous facility. We continue to operate our business prudently, with no reliance on any single asset, tenant or bank.

Since the year end, we have been finalising a further £10.3 million refinance with Aviva, taking advantage of historically low fixed interest rates. The decision to borrow from Aviva is a deliberate strategy to balance our lending away from the banking sector to the insurance lenders. This will avoid regular uncertainty over facilities and avoid incurring renewal fees which the banks are seeking to charge on a more frequent basis.

Regional Outlook

Our core investment area is the West Midlands and central England, which has re-invented itself on many occasions. Following the demise of Rover, British Steel and other traditional manufacturers, the region has much to be positive about, despite the economic gloom:

- £120 billion of exports
- Best performing high streets in the UK (PWC)
- Vibrant and active automotive sector
- Expansion of Jaguar Land Rover, creating 1,000 supply chain jobs
- Expansion of Birmingham International Airport
- Commencement of £640 million New Street Station project
- Growing medical research, development and pharmaceutical businesses
- HS2 approved by government

The management's association with CPBigwood Chartered Surveyors, Bond Wolfe and Paul Dubberley & Co, reveals record auction results of £46 million, improved lending for housing, strong residential sales across all price ranges and rising residential rents.

Outlook and Opportunities for 2012

We are now firmly established as a respected West Midlands quoted property company that has achieved 'favoured buyer' status and a reputation which I believe will attract further opportunities.

We continue to see greater levels of stock, predominantly from institutions and receivers. The expected level of sales from Banks has been limited, but we believe that we will see greater activity in 2012, in particular from the Irish Banks, Royal Bank of Scotland and secondary lenders.

Our criteria dictate that property must have the potential for asset management initiatives that will provide capital growth potential and attractive yields. The properties acquired during the last few years provide excellent yields and I believe that once market valuations settle and recover, we will be beneficiaries of some very healthy capital growth. In the short to medium term, we will be the recipients of a strong positive cash flow from a growing and secure rental stream.

The fragile market place will continue to provide further opportunities. We currently have a number of properties in our pipeline that meet our criteria and we are in advanced discussions with the view to adding these to our portfolio.

The occupier market is improving as evidenced from our letting success. We continue to see evidence of a strong residential market for both sales and lettings and a healthy improvement in bank lending which has supported private treaty and auction sales in 2011.

Summary

The UK economy, property and asset valuations remain subdued, yet the irony is that this is an ideal environment in which to grow and establish REI within the Midlands. We have maintained excellent occupancy levels, acquired some good quality prime and secondary assets with attractive yields, whilst capitalising on first rate banking relationships and refinancing unencumbered, but income producing assets, against historically low interest rates. Simplistically, we have created a diverse regional portfolio, with strong yields and capital growth potential.

I remain optimistic about 2012 for us as a business, and I believe that capital values will improve gradually during 2012 to 2014, benefitting from our asset management and lettings success, together with general improvement in market conditions.

Paul Bassi CBE DL D.UNIV DSc
Chief Executive
Date: 23 March 2012

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2011.

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

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

Key Performance Indicators

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

The above continue to be the key performance indicators of the Group, but last year was a year of unprecedented economic, bank and property turmoil which meant that these targets were not achieved. In our focus area of Birmingham and the wider West Midlands, we have been one of very few active investors and believe we have acquired assets favourably. However, these acquisitions are almost the only comparable evidence available to valuers, and have contributed to our portfolio being downgraded by 6.2%, despite our active asset management and improving rental income.

Key risks and uncertainties

Risk area	
Investment portfolio	**Mitigation**
• Tenant default • Change in demand for space • Market pricing affecting value	• Not reliant on one single tenant or business sector • Focused on established business locations for investment • Monitor asset concentration • Portfolio diversification between office and retail properties • Building specifications not tailored to one user • Continual focus on current vacancies and expected changes
Financial	
• Reduced availability or increased cost of debt • Interest rate sensitivity	• Low gearing policy • Fixed rate debt and hedging in place • Existing facilities sufficient for spending commitments • On-going monitoring and management of the forecast cash position • Internal procedures in place to track compliance
People	
• Retention/recruitment	• Remuneration structure reviewed • Regular assessment of performance

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

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

M H P Daly, J Crabtree and W Wyatt will retire and submit themselves for re-election at the forthcoming Annual General Meeting. P H Lewin retired as a director on 31 December 2010.

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 11 February 2012.

	Number	%
Caledonia Investments Plc	20,154,812	28.22
P P S Bassi	9,000,000	12.60
Ruffer	8,570,471	12.00
Henderson Global Investors	6,590,132	9.23
Blackrock Investment Management	3,713,884	5.20
Standard Life Investments	3,090,909	4.33
Friends Provident International	2,700,000	3.78
Artemis Investment Management	2,603,846	3.65
Reech CBRE Alternative Real Estate	2,215,171	3.10

Creditor payment policy
The Group's policy is to settle all agreed liabilities within 30 days of receipt of invoice or provision of goods or services if later. At 31 December 2011 trade payables represented 51 days (2010: 57 days) purchases based on the total purchases for the year.

Charitable donations
The Group made no charitable donations during the period (2010: £nil).

Post balance sheet events
On 23 March 2012 the Company raised net cash of £3.7 million by way of a loan from Aviva of £10.3 million secured on certain investment properties, and after repaying bank loans of £6.6 million.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors are aware:

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

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

Annual General Meeting
The Annual General Meeting will be held at Cathedral Place, 3rd Floor, 42-44 Waterloo Street, Birmingham, B2 5QB on 12 June 2012 at 12 pm.

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

BY ORDER OF THE BOARD

M H P Daly
Secretary

Date: 23 March 2012

Company No 5045715

Directors' statement on corporate governance

The Board of Directors is accountable to shareholders for the good corporate governance of the Group. Under the AIM rules for companies, the Group is not required to comply with the UK Corporate Governance Code (June 2010). However, the Board is aware of the best practice defined by the Code and seeks to adopt procedures to institute good governance insofar as practical and appropriate for a Group of its size while retaining its focus on the entrepreneurial success of the business. The main elements of the Group's governance procedure are documented below.

Application of principles

Directors

The composition of the Board is set out on page 7. The Board currently comprises three non-executive directors and two executive directors. The Board aims to meet monthly and is provided with relevant information on financial, business and corporate matters prior to meetings. The Board is responsible for overall Group strategy, approval of property and corporate acquisitions and disposals, approval of substantial items of capital expenditure, and consideration of significant operational and financial matters. The Board has established both an Audit and Remuneration Committee. Given the small size of the Board, it is not considered necessary to establish a separate Nominations Committee. All members of the Board are fully consulted on the potential appointment of a new director. All directors are subject to re-election every three years.

Accountability and audit

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

Going concern

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

- the significant cash balances the Group holds and the low levels of historic and projected operating cashflows
- any property purchases will only be completed if cash resources or loans are available to complete those purchases
- the Group's bankers have indicated their continuing support for the Group
- the Group's £20 million facility with Lloyds Banking Group was renewed in October 2011 on similar terms for a period of three years

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

Internal control

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

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

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

Remuneration Committee

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

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

Service agreements

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

Policy on directors' remuneration

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

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

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

The remuneration of directors for the year ended 31 December 2011 was as follows:

	Salary	Salary in lieu of benefits	Fees	Employers' national insurance contributions	2011	2010	Share options	Share options
					Total	Total	2011	2010
	£000	£000	£000	£'000	£000	£000	Number	Number
P H Lewin		-	-	-	-	22	-	-
J J Jack	-	-	22	-	22	22	-	-
P P S Bassi	300	75	-	50	425	423	-	1
M H P Daly	180	45	-	28	253	254	-	1
J Crabtree	-	-	25	-	25	12	-	-
W Wyatt	-	-	22	-	22	11	-	-
	480	120	69	78	747	744	-	2

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

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

No bonuses have been awarded to the directors.

Policy on non-executive directors' remuneration

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

Share warrants

Certain directors were granted share warrants on 29 June 2006 in respect of 2,127,500 Ordinary shares and on 25 July 2006 in respect of 475,000 Ordinary shares. The share warrants are exercisable from two years from the date of the grant of the option and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of grant, in proportion to their shareholding and are exercisable at 120p per share.

Long Term Incentive Plan

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

- The LTIP has a ten year life form January 2010 to December 2019.
- Awards become payable to the extent that shareholder return defined as net asset value ("NAV") growth adjusted for dividends and other returns to shareholders exceed a compound growth rate of 10% per annum (Hurdle Return).
- If shareholder returns exceed the Hurdle Return, 20% of such excess will be payable in Ordinary shares under the LTIP.
- Participants will have the opportunity to take up to 30% of the amount accrued under the LTIP at the end of year three, with the portion able to be taken up each year thereafter increasing by 10% each year and the full amount (100%) being available only after the end of the ten year period.
- Only executive directors are eligible to take participate in the LTIP.
- The baseline for the commencement of the LTIP is the NAV per Ordinary share at 31 December 2009 adjusted for the impact of the placing of Ordinary shares in 2010 and 2011.
- Subject to the time limits set out above, awards may be taken up in the 20 business day period following the announcement of full year or interim results.
- Amounts payable will be satisfied in full (save as below) by the issue of Ordinary shares or the grant of zero/nominal cost options to any participant. The price at which shares will be issued will be the higher of NAV per share as reported in the latest full year results and the weighted average mid-market closing price for the first 20 business days following announcement of the latest full year results. On issue, the Ordinary shares will rank pari passu with the existing issued Ordinary shares.
- The number of Ordinary which can be issued under the LTIP is limited to 10% of the Company's then issued share capital. Any excess earned above this level will be paid in cash provided that the remuneration committee consider it prudent to do so at that stage, otherwise payment will be deferred until the remuneration committee deem it prudent.
- The remuneration committee may from time to time make any alteration to the plan which it thinks fit, including for legal, regulatory or tax reasons, in order to ensure the smooth workings of the plan in line with its objectives.

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

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

Long Term Incentive Plan (continued)

No expense has been recognised in respect of the LTIP for the year ended 31 December 2011 as no options are expected to vest.

APPROVED BY THE BOARD OF DIRECTORS – J R A Crabtree
Chairman, Remuneration Committee
Date: 23 March 2012

We have audited the consolidated financial statements of Real Estate Investors plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 7 and 8, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following where under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Other matter

We have reported separately on the parent Company financial statements of Real Estate Investors plc for the year ended 31 December 2011.

Mark Taylor
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date: 23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011	2010
		£000	£000
Revenue		4,897	4,020
Cost of sales		(1,300)	(1,251)
Gross profit		3,597	2,769
Administrative expenses		(1,362)	(1,340)
Share of (loss)/profit of joint venture	11	(2)	9
Surplus on sale of investment property		22	186
Net loss on valuation of investment properties	9	(4,230)	(4,119)
Loss from operations		(1,975)	(2,495)
Finance income	4	197	502
Finance costs	4	(2,337)	(2,418)
Loss on financial liabilities at fair value through profit and loss	16	(2,577)	(1,178)
Loss on ordinary activities before taxation	3	(6,692)	(5,589)
Income tax credit	6	1,663	801
Net loss after taxation and total comprehensive income		(5,029)	(4,788)
Total and continuing loss per ordinary share			
Basic (2010: adjusted for share consolidation)	7	(8.6)p	(10.1)p
Diluted (2010: adjusted for share consolidation)	7	(8.6)p	(10.1)p

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital	Share premium account	Capital redemption reserve	Other reserves	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2010	3,407	29,472	45	121	(5,725)	27,320
Issue of new shares	1,553	-	-	-	-	1,553
Premium on issue of shares	-	8,542	-	-	-	8,542
Expenses of share issue	-	(360)	-	-	-	(360)
Transactions with owners	1,553	8,182	-	-	-	9,735
Loss for the year and total comprehensive income	-	-	-	-	(4,788)	(4,788)
At 31 December 2010	4,960	37,654	45	121	(10,513)	32,267
Issue of new shares	2,182	-	-	-	-	2,182
Premium on issue of shares	-	9,818	-	-	-	9,818
Expenses of share issue	-	(257)	-	-	-	(257)
Reduction of share premium account	-	(47,154)	-	-	47,154	-
Transactions with owners	2,182	(37,593)	-	-	47,154	11,743
Loss for the year and total comprehensive income	-	-	-	-	(5,029)	(5,029)
At 31 December 2011	**7,142**	**61**	**45**	**121**	**31,612**	**38,981**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 £000	2010 £000
Assets			
Non current			
Intangible assets	8	**171**	171
Investment properties	9	**63,434**	50,478
Property, plant and equipment	10	**28**	40
Deferred tax	17	**4,890**	3,310
		68,523	53,999
Investment in joint venture	11	**148**	103
		68,671	54,102
Current			
Inventories	12	**7,795**	6,053
Trade and other receivables	13	**2,469**	3,707
Cash and cash equivalents		**4,461**	11,822
		14,725	21,582
Total assets		**83,396**	75,684
Liabilities			
Current			
Bank loans and overdraft	15	**(2,930)**	(22,131)
Provision for current taxation		**(18)**	(118)
Trade and other payables	14	**(2,052)**	(1,941)
		(5,000)	(24,190)
Non current			
Bank loans	15	**(34,421)**	(16,810)
Liabilities at fair value through profit and loss	16	**(4,994)**	(2,417)
		(39,415)	(19,227)
Total liabilities		**(44,415)**	(43,417)
Net assets		**38,981**	32,267

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2011

	Note	2011 £000	2010 £000
Equity			
Share capital	18	**7,142**	4,960
Share premium account		**61**	37,654
Capital redemption reserve		**45**	45
Other reserves		**121**	121
Retained earnings		**31,612**	(10,513)
Total Equity		**38,981**	32,267
Net assets per share (2010: adjusted for share consolidation)	7	**54.6p**	65.0

These financial statements were approved by the Board of Directors on 23 March 2012.

Signed on behalf of the Board of Directors

J R A Crabtree – Chairman

M H P Daly – Finance Director

Company No 5045715

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

REAL ESTATE INVESTORS PLC

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2011

	2011	2010
	£000	£000
Cash flows from operating activities		
Loss after taxation	**(5,029)**	(4,788)
Adjustments for:		
Depreciation	**12**	7
Net loss on valuation of investment property	**4,230**	4,119
Surplus on sale of investment property	**(22)**	(186)
Share of loss/(profit) of joint venture	**2**	(9)
Finance income	**(197)**	(502)
Finance costs	**2,337**	2,418
Loss on financial liabilities at fair value through profit and loss	**2,577**	1,178
Income tax credit	**(1,663)**	(801)
(Increase)/decrease in inventories	**(1,742)**	701
Decrease/(increase) in trade and other receivables	**1,238**	(1,036)
Increase/(decrease) in trade and other payables	**111**	(1)
	1,854	1,100
Interest paid	**(2,337)**	(2,418)
Income taxes paid	**(17)**	(31)
Net cash from operating activities	**(500)**	(1,349)
Cash flows from investing activities		
Purchase of investment properties	**(17,321)**	(6,730)
Purchase of property, plant and equipment	**-**	(44)
Proceeds from sale of investment property	**157**	373
Investment in joint venture	**(47)**	(39)
Interest received	**197**	502
	(17,014)	(5,938)
Cash flows from financing activities		
Proceeds from issue of share capital net of expenses	**11,743**	9,735
Payment of bank loans	**(3,804)**	**(1,457)**
	7,939	8,278
Net (decrease) /increase/in cash and cash equivalents	**(9,575)**	991
Cash, cash equivalents and bank overdrafts at beginning of period	**11,822**	10,831
Cash, cash equivalents and bank overdrafts at end of period	**2,247**	11,822

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

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

1. Accounting policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of properties and financial instruments held at fair value through profit and loss, and in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. Separate financial statements of Real Estate Investors PLC (the Company) have been prepared, on pages 41 to 52, under the historical cost convention except for the revaluation of investment properties and in accordance with applicable accounting standards under UK GAAP.

The principal accounting policies of the Group are set out below and are consistent with those applied in the 2010 financial statements.

Going concern

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

- the significant cash balances the Group holds and the low levels of historic and projected operating cash outflows
- rising rental income, together with properties actively being marketed, leading to improving profitability
- any property purchases will only be completed if cash resources or loans are available to complete these purchases
- the Group's bankers have indicated their continuing support for the Group
- the bank loan covenants, which are principally related to loan to property asset value ratios, are expected to be met going forward
- the Group has renewed its £20 million facility with Lloyds Banking Group in October 2011 on similar terms for a period of three years.

For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

Business combinations

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

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

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

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

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

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

Investment in joint ventures

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

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

All subsequent changes to the share of interest in the joint venture are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the joint venture are reported in "share of profit/(loss) of joint venture" in the consolidated statement of comprehensive income and therefore affect the net results of the Group.

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

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

Income recognition

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

Rental income

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

Sale of properties

Revenue from the sale of properties is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer, usually when legally binding contracts which are irrevocable and unconditional are exchanged. Revenue is, therefore, recognised when legal title passes to the purchaser.

Impairment

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

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

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

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

Investment properties

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

Investment properties are initially recognised at cost including direct transaction costs.

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

Leasehold improvements and office equipment

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

Leasehold improvements	-	length of lease
Office equipment	-	four years

Residual values and useful lives are reassessed annually.

Inventories

Trading properties, which are held for resale, are included in inventories at the lower of cost and net realisable value. Cost includes all fees relating to the purchase of the property and improvement expenses. Net realisable value is based on estimated selling price less future costs expected to be incurred to sale. Any provisions to impair trading properties below cost are reversed in future periods if market conditions subsequently support a higher fair value but only up to a maximum of the original cost. Property acquisitions are accounted for when legally binding contracts which are irrevocable and effectively unconditional are exchanged.

Operating leases

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

Group company is the lessor
Properties leased out to tenants under operating leases are included in investment properties in the statement of financial position when all the risks and rewards of ownership of the property are retained by the Group.

Taxation

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

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

Deferred income taxes on investment properties relates to temporary differences between the carrying value of these assets and their tax base. In calculating deferred income taxes on investment properties the Directors are required to consider the manner in which the value of the properties will be recovered, whether through use or through sale. The Directors consider that the value of investment properties (which are held to earn rentals and for capital appreciation) will be recovered through a mixture of rental income and sale. The Directors then consider whether there would be any deductions which could be made against future sales proceeds. The deferred income tax represents the tax effect of the difference between the valuation of the investment property and its tax base.

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

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

Financial assets

The Group's financial assets include cash and cash equivalents and trade and other receivables.

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

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

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade, loan receivables and other receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

Financial assets

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

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

Cash and cash equivalents

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

Equity

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

Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables and liabilities at fair value through profit and loss.

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

Bank overdrafts are raised for support of the short term funding of the Group's operations.

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

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

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

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

Classification as equity or financial liability

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

Classification as equity or financial liability (continued)

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

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

Share warrants and share options

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

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

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

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

Share based payments

The fair value of granting awards under the long Term Incentive Plan to directors is recognised through the consolidated statement of comprehensive income. The value of shares awarded is calculated by using the Black Scholes model. The resulting fair value is amortised through the consolidated statement of comprehensive income on a straight line basis over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

Segmental reporting

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

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

Standards and interpretations in issue, not yet effective

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective 1 July 2011)

Standards and interpretations in issue, not yet effective (continued)

- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 (effective 1 January 2012)
- Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)

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

Critical accounting estimates and assumptions

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

Investment property valuation
The Group uses the valuations performed by its independent valuers or the directors as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs and the appropriate discount rate. The valuer and directors also make reference to market evidence of transaction prices for similar properties. The impact of changes in property yields used to ascertain the valuation of investment properties are considered in note 15.

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

Deferred taxation on investment properties
The Group has a deferred tax asset of £4,890,000 at 31 December 2011 (2010: £3,310,000) in respect of the devaluation of investment properties which is provided on the basis that this devaluation will reverse in future years. The Directors are confident that this devaluation will reverse and taxable gains will arise on these investment properties.

Critical judgements in applying the Group's accounting policies

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

Categorisation of properties
Properties held by the subsidiary company 3147398 Limited are classified as inventories, being properties held for resale in the ordinary course of business. These properties generate rental income but are being actively marketed for sale and are therefore categorised as properties held for resale and carried at the lower of cost and net realisable value. Investment properties held for own use are classified as leasehold property only when intended for long term use within the business.

2. Segmental information

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

	Investment in and trading of properties	
	2011	2010
	£000	£000
Segment revenues – rental income	**3,937**	3,298
- sale of assets held as inventory	**960**	722
Cost of sales	**(1,300)**	(1,251)
Administrative expenses	**(1,362)**	(1,340)
Share of (loss)/profit of joint venture	**(2)**	9
Surplus on disposal of investment property	**22**	186
Net loss on valuation of investment properties	**(4,230)**	(4,119)
Segment operating loss	**(1,975)**	(2,495)
Segment assets	**83,396**	75,684

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

	2011	2010
	£000	£000
Finance income	**197**	502
Finance costs	**(2,337)**	(2,418)
Depreciation	**(12)**	(7)
Income tax credit	**1,663**	801

Revenue from external customers and non current assets arises wholly in the United Kingdom. All revenue for the year is attributable to the principal activities of the Group. Revenue from the largest customer represented 19% of the total revenue for the period and related to the sale of assets held as inventory.

3. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after:

	2011	2010
	£000	£000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	**15**	15
Fees payable to the Company's auditor for other services:		
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	**10**	8
Depreciation of owned property and equipment	**12**	7
Operating lease payments	**115**	93

4. Directors and employees

Staff costs during the period were as follows:

	2011 £000	2010 £000
Wages and salaries	**718**	711
Social security costs	**90**	88
	808	799

The average number of employees (including executive directors) of the Group during the period was six, all of whom were engaged in administration (2010: six). The executive and non-executive directors are the key management personnel and details of their remuneration are included within the directors' remuneration report on page 10.

5. Finance income/finance costs

	2011 £000	2010 £000
Finance income:		
Interest receivable	**197**	502
Finance costs:		
Interest payable on bank loans	**(2,337)**	(2,418)

6. Income tax (credit)/expense

	2011 £000	%	2010 £000	%
Result for the year before tax	**(6,692)**		(5,589)	
Tax rate	**25%**		28%	
Expected tax credit	**(1,673)**	**(25.0)**	(1,565)	(28.0)
Adjustment for non deductible expenses	**-**		2	0.0
Capital allowances claim	**93**	**1.4**	762	13.6
Adjustments prior year	**(83)**	**(1.2)**	-	-
Actual tax credit	**(1,663)**	**(24.8)**	(801)	(14.4)

Tax credit comprises:

	2011	2010
Current tax	**(83)**	-
Deferred tax credit (note 17)	**(1,580)**	(801)
	(1,663)	(801)

7. Loss per share and net assets per share

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

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

	2011			2010		
	Loss	**Average number of shares**	**Loss per Share**	**Earnings**	**Average number of shares**	**Earnings per share**
	£'000			£'000		
Basic loss per share	**(5,029)**	**595,252,057**	**(0.86)p**	(4,788)	473,472,322	(1.01)p
Dilutive effect of conversion of convertible share warrants and options	**-**	**-**	**-**	-	-	-
Diluted loss per share	**(5,029)**	**595,252,057**	**(0.86)p**	(4,788)	473,472,322	(1.01)p

Following the consolidation of the shares from 1p shares to 10p shares the loss per share is restated as 8.6p per share (2010: 10.1p).

The impact of share warrants and share options on the loss per share for the years ended 31 December 2010 and 2011 is antidilutive.

Following the consolidation of the shares from 1p shares to 10p the net assets per share is based on the net assets at 31 December 2011 of £38,981,000 (2010: £32,267,000) divided by the shares in issue at 31 December 2011 of 71,420,598 and at 31 December 2010 of 49,602,416.

8. Intangible assets

	Goodwill
	£000
Gross carrying amount	
Cost	
At 1 January 2011 and 31 December 2011	171
Accumulated impairment losses	
At 1 January 2011 and 31 December 2011	-
Net book amount at 31 December 2010 and 31 December 2011	**171**

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

9. Investment properties

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

The carrying amount of investment properties for the periods presented in the consolidated financial statements as at 31 December 2011 is reconciled as follows:

	£'000
Carrying amount at 1 January 2010	48,054
Additions – acquisition of new properties	6,624
Additions – subsequent expenditure	106
Disposals	(187)
Revaluation	(4,119)
Carrying amount at 31 December 2010	50,478
Additions – acquisition of new properties	17,022
Additions – subsequent expenditure	299
Disposals	(135)
Revaluation	(4,230)
Carrying amount at 31 December 2011	**63,434**

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

	£000
At professional valuation	62,232
At directors' valuation	1,202
	63,434

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

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

	2011	2010
	£'000	£'000
Cost and net book amount at 31 December	**78,857**	61,588

In accordance with IAS40, the Group's policy is that investment properties should be valued by an external valuer at least every three years. The valuation at 31 December 2011 has in the main been carried out by DTZ and Gerald Eve LLP, professional valuers, on certain properties and the directors on the remaining properties.

Properties are valued on an open market basis based on active market prices adjusted, if necessary, for any differences in the nature, location or condition of the specified asset. If this information is not available, alternative valuation methods are used such as recent prices on less active markets, or discounted cash flow projections. There are no reasonably possible alternative assumptions that could have applied.

The fair value of an investment property reflects, among other things, rental income from current leases and assumptions about future rental lease income based on current market conditions and anticipated plans for the property. Rental income from investment properties in the year ended 31 December 2011 was £3,937,000 (2010: £3,298,000) and direct operating expenses in relation to those properties were £607,000 (2010: £550,000).

10. Property, plant & equipment

	Leasehold improvements	Office Equipment	Total
	£000	£000	£000
Gross carrying amount			
At 1 January 2010	70	47	117
Additions	38	6	44
At 31 December 2010	108	53	161
Depreciation and Impairment			
At 1 January 2010	69	45	114
Charge for the year	5	2	7
At 31 December 2010	74	47	121
Charge for the year	10	2	12
At 31 December 2011	84	59	133
Net book carrying amount			
At 31 December 2011	**24**	**4**	**28**
At 31 December 2010	34	6	40

11. Joint Venture

	2011	2010
	£000	£000
At 1 January	**103**	55
Further investments	**47**	39
Group's share of the (loss)/profit for the year	**(2)**	9
At 31 December	**148**	103

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

	2011	2010
	£000	£000
Non current assets and net current liabilities	**1,050**	1,050
Non current liabilities	**(902)**	(947)
	148	103
Group's share of income of joint venture	**75**	87
Group's share of expenses, interest and tax of joint venture	**(77)**	(78)
Group's share of (loss)/profit of joint venture	**(2)**	9

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

There were no capital commitments at 31 December 2011 and 31 December 2010 in respect of the joint venture.

There were no contingent liabilities at 31 December 2011 and 31 December 2010 in respect of the joint venture.

12. Inventories

	2011	2010
	£000	£000
Properties held for trading	**7,795**	6,053

All properties held for trading are included at the lower of cost and net realisable value. The amount of inventories recognised as a charge (2010: charge) in the year ended 31 December 2011 is £674,000 (2010: £701,000), which is after crediting a fair value adjustment uplift in valuations of £56,000 (2010: £nil). All of the properties held for trading are pledged as security for bank loans.

Properties held at fair value less costs to sell at 31 December 2011 are £5,215,000 (2010: £5,895,000)

13. Trade and other receivables

	2011	2010
	£000	£000
Trade receivables	592	443
Loans receivable	119	2,340
Other receivables	1,165	475
Prepayments and accrued income	593	449
	2,469	3,707

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £30,000 (2010: £161,000) has been recorded accordingly. The movement in the provision for impairment during the year is as follows:

	2011	2010
	£000	£000
At 1 January	**161**	161
Debts written off	**(79)**	-
Decrease in provision	**(52)**	-
At 31 December	**30**	161

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

	2011	2010
	£000	£000
Not more than three months past due	**5**	220
More than three months but no more than six months past due	**85**	46
	90	266

13. Trade and other receivables (continued)

Financial assets by category

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

	2011			2010		
	Loans and receivables	**Non financial assets**	**Balance sheet total**	Loans and receivables	Non financial assets	Balance sheet total
	£000	**£000**	**£000**	£000	£000	£000
Trade receivables	**592**	**-**	**592**	443	-	443
Loans receivable	**119**	**-**	**119**	2,340	-	2,340
Other receivables	**1,165**	**-**	**1,165**	475	-	475
Prepayments and accrued income	**-**	**593**	**593**	-	449	449
Cash and cash equivalents	**4,461**	**-**	**4,461**	11,822	-	11,822
	6,337	**593**	**6,930**	15,080	449	15,529

14. Trade and other payables

	2011	2010
	£000	£000
Trade payables	**305**	270
Other payables	**384**	348
Social security and taxation	**187**	93
Accruals and deferred income	**1,176**	1,230
	2,052	1,941

14. Trade and other payables (continued)

Financial liabilities by category

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

	2011				2010			
	Financial liabilities at fair value through profit and loss	**Other financial liabilities at amortised cost**	**Liabilities not within the scope of IAS39**	**Balance sheet total**	Financial liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Liabilities not within the scope of IAS39	Balance sheet total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Current								
Bank loans and overdrafts	**-**	**2,930**	**-**	**2,930**	-	22,131	-	22,131
Provision for current taxation	**-**	**-**	**101**	**101**	-	-	118	118
Trade payables	**-**	**305**	**-**	**305**	-	270	-	270
Other payables	**-**	**384**	**-**	**384**	-	348	-	348
Social security and taxation	**-**	**-**	**187**	**187**	-	-	93	93
Accruals and deferred income	**-**	**1,176**	**-**	**1,176**	-	1,230	-	1,230
	-	**4,795**	**288**	**5,083**	-	23,979	211	24,190
Non-current								
Bank loans	**-**	**34,421**	**-**	**34,421**	-	16,810	-	16,810
Financial instruments	**4,994**	**-**	**-**	**4,994**	2,417	-	-	2,417
	4,994	**34,421**	**-**	**39,415**	2,417	16,810	-	19,227
	4,994	**39,216**	**288**	**44,498**	2,417	40,789	211	43,417

15. Financial risk management objectives and policies

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

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

Credit risk

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

15. Financial risk management objectives and policies (continued)

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

	2011	2010
	£000	£000
Classes of financial assets - carrying amount		
Cash and cash equivalents	**4,461**	11,822
Trade and other receivables	**1,876**	3,168
	6,337	14,990

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

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. In respect of trade and other receivables, the Group is not exposed to any significant risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does this by taking out loans with banks to build up cash resources to fund property purchases.

Bank loans and overdrafts

The Group borrowings analysis (all of which are undiscounted) at 31 December 2011 is as follows:

	2011	2010
	£000	£000
In less than one year:		
Bank overdraft	**2,214**	-
Bank borrowings	**716**	22,131
In more than one year but less than two years:		
Bank borrowings	**768**	756
In more than two years but less than five years:		
Bank borrowings	**22,532**	4,236
In more than five years		
Bank borrowings	**11,728**	12,289
Financial instruments	**4,994**	2,417
	42,952	41,829
Deferred arrangement costs	**(607)**	(471)
	42,345	41,358

15. Financial risk management objectives and policies (continued)

Split

Current liabilities	-bank overdraft	**2,214**	-
	-bank loans	**716**	22,131
Non current liabilities	-bank loans	**34,421**	16,810
	-financial liabilities at fair value through profit and loss	**4,994**	2,417
		42,345	41,358

Maturity of financial liabilities

The gross contractual cashflows relating to bank loans above are as follows:

	2011	2010
	£000	£000
In less than one year: Bank overdraft	**2,214**	-
Bank borrowings	**3,093**	23,724
In more than one year but less than two years:		
Bank borrowings	**3,093**	1,663
In more than two years but less than five years:		
Bank borrowings	**27,751**	6,763
In more than five years		
Bank borrowings	**13,423**	14,881
	49,574	47,031

In February 2008 the Group entered into interest rate swap agreements to cover £20 million of its bank borrowings. These contracts are considered by management to be part of economic hedge arrangements but have not been formally designated. The effect of these agreements is to fix the interest payable on a notional £10 million at a rate of 4.95%; unless the actual rate is between 3.65% and 4.95% in which case the actual rate is paid or unless the rate is above 4.95% in which case 3.65% is paid and to fix interest payable on a notional £10 million at 3.85% plus a margin of 2.75%. At 31 December 2011 the fair value of this arrangement based on a valuation provided by the Group's bankers was a liability of £4,994,000 (2010: £2,417,000).

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2011 of £1,500,000 (2010: £nil).

Market risk

Interest rate risk

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

15. Financial risk management objectives and policies (continued)

The interest rate exposure of the financial liabilities of the Group at 31 December 2011 was:

	Interest %	Expiry Date	**2011 £000**	2010 £000
Fixed until October 2019	6.600	October 2019	**10,000**	10,000
Fixed until October 2019	6.230	October 2019	**812**	848
Fixed until January 2019	6.295	January 2019	**1,197**	1,308
Fixed until August 2028	6.550	August 2028	**769**	794
Fixed until January 2030	6.040	January 2030	**4,688**	4,820
Fixed until March 2030	6.270	March 2030	**778**	806
Fixed until May 2030	5.780	May 2030	**1,528**	1,543
Fixed until March 2031	5.470	March 2031	**784**	796
Cap and collar agreement until January 2018	4.95% cap	January 2018	**8,500**	10,000
Variable rate			**6,688**	8,497
			35,744	39,412
Loan arrangement fees			**(607)**	(471)
			35,137	38,941

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

The following table illustrates the sensitivity of the net result after tax and equity to a reasonably possible change in interest rates of + two percentage points (2010: + five/- point five percentage points) with effect from the beginning of the year:

	2011 +2.0%	2010 + 5.0% £'000	2010 - 0.5 % £'000
(Decrease)/increase in result after tax and equity	(82)	(230)	23

The interest rate change above will have a material impact on the valuation of the interest rate swap but the effect has not been quantified.

Property yield risk

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

15. Financial risk management objectives and policies (continued)

Capital risk management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders;
- to ensure that key bank covenants are not breached
- to maintain sufficient facilities for operating cashflow needs and to fund future property purchases
- to support the Group's stability and growth;
- to provide capital for the purpose of strengthening the Group's risk management capability;
- to provide capital for the purpose of further investment property acquisitions; and
- to provide an adequate return to shareholders.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The management regards total equity as capital and reserves, for capital management purposes. At 31 December 2011 the Group had unused bank facilities of £1.5 million.

The Group raised £11.74 million from a share placing during the year to provide capital to expand the Group's property portfolio, in line with the objectives above.

The Group applied to the courts to release £47 million of share premium to distributable reserves, and also carried out a 1 for 10 share consolidation.

16. Fair value disclosures

Fair value measurement

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

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

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

Bank loans and overdrafts

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

Financial instruments

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

Fair value hierarchy

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

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

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

16. Fair value disclosures (continued)

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
	2011	**2011**	**2011**	**2011**
	£000	**£000**	**£000**	**£000**
Interest rate swap agreements:				
At 1 January 2010	-	1,239	-	1,239
Income statement	-	1,178	-	1,178
At 3l December 2010	-	2,417	-	2,417
Income statement	-	2,577	-	2,577
At 31 December 2011	-	4,994	-	4,994

17. Deferred taxation

The movement in deferred taxation assets is as follows:

	2011	2010
	£000	£000
At 1 January	**3,310**	2,509
Income statement (note 6)	**1,580**	801
At 31 December	**4,890**	3,310

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

	Deferred tax asset	Deferred tax asset
	£'000	£'000
Investment property	**2,969**	2,064
Financial instrument	**1,248**	653
Unused trading tax losses	**673**	593
	4,890	3,310

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

- the Directors are confident that the devaluation of the investment properties will at least fully reverse
- the interest rate swap liability will ultimately reverse regardless of movements in future interest rates; and
- the rental income stream of the Group will continue to grow, without significant cost increases, and the unused trading losses will therefore be fully utilised in the foreseeable future

18. Share capital

	2011 Number of shares	2011 £000	2010 Number of Shares	2010 £000
Allotted, issued and fully paid:				
Ordinary shares of 10p (2010: adjusted for share consolidation)	**71,420,598**	**7,142**	496,024,161	4,960

Movement in share capital:

	Number of shares	£000
At 1 January 2011	496,024,161	4,960
Effect of share consolidation	(642,785,384)	-
Issue of shares	218,181,821	2,182
At 31 December	**71,420,598**	**7,142**

At an Extraordinary General meeting held on 18 July 2011 the Company received shareholder approval to raise funds for expansion by way of placing 218,181,821 new Ordinary shares at 5.5p per share, raising £11.74 million net of expenses.

At the Extraordinary meeting authority was also given to consolidate the shares from 1p Ordinary shares to 10p Ordinary shares and to carry out a share premium reduction by way of a transfer to reserves of £47,154,000.

Certain directors were granted share warrants on 29 June 2006 in respect of 2,127,500 Ordinary shares and on 25 July 2006 in respect of 475,000 Ordinary shares. The share warrants are exercisable from two years from the date of the grant of the warrants and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant and are exercisable at 12p.

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

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

Details of options granted during the year under the LTIP are included in the Report on Remuneration. No expense has been recognised in respect of the options granted as no options are expected to vest.

18. Share capital (continued)

As described in the Directors' Remuneration Report, 2 options were issued under the 2010 LTIP on inception. The weighted average fair value of the awards made is £0.59 per option, calculated applying the Black-Scholes option pricing model with a volatility of 21% (based on the weighted average share price movements over the last 3 years), a dividend yield of 0%, a risk free rate of 4.4%, an expected weighted average life of 5 years, a weighted average exercise price of 0.5p and a market value of underlying shares at the date of grant of £0.595. As at the date of grant no further shares were expected to be issued under the LTIP based on forecasts available at that time. At 31 December 2011, no options were expected to vest (2010: no options), therefore the charge to the income statement in the years ended 31 December 2010 and 2011 is £nil.

19. Operating lease commitments

Operating lease commitments relating to land and buildings expire within two to five years and amount to £71,000 (2010: £71,000).

Non-cancellable operating lease commitments receivable:

	2011	2010
	£000	£000
Within one year	**736**	95
Later than one year but not later than five years	**5,713**	4,308
Later than five years	**26,632**	20,823
	33,081	25,226

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

20. Contingent liabilities

There were no contingent liabilities at 31 December 2011 or at 31 December 2010.

21. Capital commitments

Capital commitments authorised at 31 December 2011 were £Nil (2010: £2,790,000).

22. Pension scheme

There was no pension scheme for the benefit of employees or directors in operation at 31 December 2011 or 31 December 2010.

23. Related party transactions

During the period the Group paid agency fees of £165,000 (2010: £62,400) in respect of professional services to Bond Wolfe, a partnership in which P P S Bassi is a partner, and rent and service charges of £115,000 (2010: £93,000) to Bond Wolfe Estates Limited, a company in which P P S Bassi is a director and shareholder.

During the period the Group paid professional fees of £3,000 (2010: £5,750) to CP Bigwood Chartered Surveyors, a company in which P P S Bassi and M H P Daly are directors and shareholders.

During the period the Group received rental income of £52,000 (2010: £52,000) from CP Bigwood Chartered Surveyors.

24. Post balance sheet events

On 23 March 2012 the Company raised net cash of £3.7 million by refinancing certain properties with Aviva and raising £10.3 million and repaying bank debt of £6.6 million.

REAL ESTATE INVESTORS PLC

COMPANY STATUTORY FINANCIAL STATEMENTS (PREPARED UNDER UK GAAP)

FOR THE YEAR ENDED 31 DECEMBER 2011

COMPANY NUMBER 5045715

Statement of directors' responsibilities

The directors are responsible for preparing the Company financial statements ("financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors are aware:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL ESTATE INVESTORS PLC

We have audited the parent Company financial statements of Real Estate Investors plc for the year ended 31 December 2011 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the consolidated financial statements of Real Estate Investors plc for the year ended 31 December 2011.

Mark Taylor
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date: 23 March 2012

Accounting policies
The financial statements have been prepared in accordance with the Companies Act 2006 and UK accounting standards except as noted below in respect of the true and fair override in respect of investment properties.

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

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

Going concern

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

- the significant cash balances the Company holds and the low levels of historic and projected operating cash outflows
- rising rental income and improving profitability
- any property purchases will only be completed if cash resources or loans are available to complete these purchases
- the Group's bankers have indicated their continuing support for the Company
- the Company's £20 million facility with Lloyds Banking Group was renewed in October 2011 on similar terms for a period of three years.

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

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

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

This policy represents a departure from the Companies Act 2006 which require depreciation to be provided on all fixed assets. The directors consider this policy is necessary in order that the financial statements give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the annual valuation and the amount, which might otherwise be shown, cannot be separately identified or quantified.

Stock

Trading properties, which are held for resale, are included in inventories at the lower of cost and net realisable value. Cost includes all fees relating to the purchase of the property and improvement expenses. Net realisable value is based on estimated selling price less future costs expected to be incurred to sale. Any provisions to impair trading properties below cost are reversed in future periods if market conditions subsequently support a higher fair value but only up to a maximum of the original cost. Property acquisitions are accounted for when legally binding contracts which are irrevocable and effectively unconditional are exchanged.

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

Leasehold improvements:	length of lease
Office equipment:	four years

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

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

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

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

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

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

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

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

Share warrants and share options
All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share based payments and share options are ultimately recognised as an expense in the profit and loss account with a corresponding credit to other reserves.

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

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

BALANCE SHEET

As at 31 December 2011

	Note	2011	2010
		£000	£000
Fixed assets			
Tangible assets	1	**52,230**	43,675
Investments	2	**5,892**	5,892
		58,122	49,567
Current assets			
Stock	3	**2,365**	-
Debtors		**9,370**	4,889
Cash at bank		**3,777**	11,056
		15,512	15,945
Creditors: amounts falling due within one year	4	**(5,837)**	(23,997)
Net current assets/(liabilities)		**9,675**	(8,052)
Total assets less current liabilities		**67,797**	41,515
Creditors: amounts falling due after more than one year	5	**(26,562)**	(8,625)
Net assets		**41,235**	32,890
Capital and reserves			
Ordinary share capital	7	**7,142**	4,960
Share premium account	8	**61**	37,654
Capital redemption reserve	8	**45**	45
Other reserves	8	**121**	121
Revaluation reserve	8	**626**	380
Profit and loss account	8	**33,240**	(10,270)
Equity shareholders' funds		**41,235**	32,890

These financial statements were approved by the Board of Directors on 23 March 2012.

Signed on behalf of the Board of Directors

J R A Crabtree – Chairman

M H P Daly – Finance Director

Company No 5045715

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

1. Tangible fixed assets

	Investment Properties £000	Leasehold improvements £000	Office Equipment £000	Total £000
Cost or valuation:				
At 1 January 2011	43,635	108	53	43,796
Additions	12,229	-	-	12,229
Disposals	(135)	-	-	(135)
Revaluation	(3,527)	-	-	(3,527)
At 31 December 2011	52,202	108	-	52,310
Accumulated depreciation				
At 1 January 2011	-	74	47	121
Charge for the period	-	10	2	12
At 31 December 2011	-	84	49	133
Net book amount				
At 31 December 2011	**52,202**	**24**	**4**	**52,230**
At 31 December 2010	43,635	34	6	43,675

Of the revaluation deficit of £3,527,000, the amount credited to the revaluation reserve is £246,000 with the balance of £3,773,000 charged to the profit and loss account.

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

	Investment properties	
	2011	2010
	£000	£'000
At valuation	**52,202**	43,635

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

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

	Investment properties	
	2011	2010
	£'000	£000
Cost and net book amount at 31 December	**63,490**	51,396

In accordance with SSAP 19, the Company's policy is that investment properties should be valued by an external valuer at least every three years. The valuation at 31 December 2011 has been carried out by DTZ Chartered Surveyors and Gerald Eve LLP, Chartered Surveyors on the basis of fair value on certain properties and by the directors on the remaining properties.

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

2. Fixed asset investments

	Investment in subsidiary undertakings	
	2011	2010
	£000	£000
Cost		
At 1 January and 31 December	**5,892**	5,892

At 31 December 2011 the Company wholly owned the following subsidiaries:

Name	**Principal Activity**	**Country of incorporation**
Boothmanor Limited	Property investment	England and Wales
Eurocity (Crawley) Limited	Property investment	England and Wales
3147398 Limited	Property trading	England and Wales
Rightforce Limited	Property investment	England and Wales
Metro Court (WB) Limited	Property investment	England and Wales
Southgate Derby Retail Limited	Property investment	England and Wales

The Group's investment in Southgate Derby Retail Limited was acquired for £100 consideration during the year.

3. Debtors

	2011	2010
	£000	£000
Trade debtors	**394**	372
Amounts owed by subsidiary undertakings	**7,687**	1,278
Other debtors	**237**	2,649
Deferred tax asset	**505**	67
Prepayments and accrued income	**547**	523
	9,370	4,889

4. Creditors: amounts falling due within one year

	2011	2010
	£000	£000
Bank overdraft	**2,214**	-
Bank loans	**387**	20,365
Amounts owed to subsidiary undertakings	**1,645**	1,934
Trade creditors	**260**	245
Other creditors	**199**	220
Corporation tax	**-**	150
Social security and taxation	**136**	77
Accruals and deferred income	**996**	1,006
	5,837	23,997

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

The Company's policy is to settle all agreed liabilities within 30 days of receipt of invoice or provision of goods or services if later. At 31 December 2011 trade creditors represented 46 days (2010: 49 days) purchases based on the total purchases for the year.

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

	2011	2010
	£000	£000
Bank loans	**27,110**	9,021
Less: deferred arrangement costs	**(548)**	(396)
	26,562	8,625

Bank loans are secured against the Company's property assets and bear interest at rates between 5.3% and 6.7% per annum.

The Company borrowings analysis at 31 December 2011 is as follows:

	2011	2010
	£000	£000
In less than one year:		
Bank borrowings	**387**	20,365
Bank overdraft	**2,214**	-
In more than one year but less than two years:		
Bank borrowings	**394**	379
In more than two years but less than five years:		
Bank borrowings	**19,675**	1,186
In more than five years		
Bank borrowings	**7,041**	7,456
	29,711	29,386
Deferred arrangement costs	**(548)**	(396)
	29,163	28,990
Split		
Current Liabilities - bank loans and overdrafts	**2,601**	20,365
Non current liabilities - bank loans	**26,562**	8,625
	29,163	28,990

6. Deferred tax

No provision has been made for deferred tax on gains recognised on revaluing investment properties to their market value in accordance with FRS 19. The total amount unprovided at an estimated tax rate of 25% (2010: 27%), for the year ended 31 December 2011 is £156,000 (2010: £103,000). Deferred taxation of £505,000 has been provided in full in 2011 on losses due to the directors now expecting future taxable profits in the foreseeable future to fully utilise them.

7. Share capital

	2011	2010	**2011**	2010
	Number	Number	**£000**	£000
	Of shares	Of shares		
Allotted, issued and fully paid:				
Ordinary shares of 10p each (2010: adjusted for share consolidation)	**71,420,598**	49,602,416	7,142	4,960

7. Share capital (continued)

Movement in share capital:

	Number of shares	£000
At 1 January 2011	496,024,161	4,960
Effect of share consolidation	(642,785,384)	-
Issued of shares	218,181,821	2,182
At 31 December	**71,420,598**	**7,142**

At an Extraordinary General meeting held on 18 July 2011 the Company received shareholder approval to raise funds for expansion by way of placing 218,181,821 new Ordinary shares at 5.5p per share, raising £11.74 million net of expenses.

At the Extraordinary meeting authority was also given to consolidate the shares from 1p Ordinary shares to 10p Ordinary shares.

The directors were granted share warrants on 29 June 2006 in respect of 21,275,000 Ordinary shares and on 25 July 2006 in respect of 4,750,000 Ordinary shares. The share warrants are exercisable from two years from the date of the grant of the warrants and will lapse within seven years if not exercised. The warrants were granted on the basis of 1 for 2 shares held at the date of the grant and are exercisable at 120p.

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

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

Details of options granted during the year under the LTIP are included in the Report on Remuneration. No expense has been recognised in respect of the options granted as no options are expected to vest. As described in the Directors’ Remuneration Report, 2 options were issued under the 2010 LTIP on inception. The weighted average fair value of the awards made is £0.59 per option, calculated applying the Black-Scholes option pricing model with a volatility of 21% (based on the weighted average share price movements over the last 3 years), a dividend yield of 0%, a risk free rate of 4%, an expected weighted average life of 5 years, a weighted average exercise price of 0.5p and a market value of underlying shares at the date of the grant of £0.585. As at the date of the grant no further shares were expected to be issued under the LTIP based on forecasts available at that time. At 31 December 2011, no options were expected to vest (2010: no options), therefore the charge to the income statement in the years ended 31 December 2010 and 2011 is £nil.

8. Movement in reserves

	Share premium account	Capital redemption reserve	Other reserves	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2011	37,654	45	121	380	(10,270)	27,930
Loss for the year	-				(3,644)	(3,644)
Premium on issue of shares	9,818	-	-	-	-	9,818
Expense of share issue	(257)	-	-	-	-	(257)
Reduction of share premium account	(47,154)	-	-	-	47,154	-
Surplus on revaluation of investment properties	-	-	-	246	-	246
At 31 December 2011	**61**	**45**	**121**	**626**	**33,240**	**34,093**

9. Loss for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss (2010: loss) for the year was £3,644,000 (2010: £2,646,000).

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2010: £7,000), and for tax compliance services totalled £nil (2010: £nil).

10. Directors and employees remuneration

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

11. Contingent liabilities

There were no contingent liabilities at 31 December 2011 or at 31 December 2010.

12. Capital commitments

Capital commitments authorised at 31 December 2011 were £Nil (2010: £2,790,000).

13. Related party transactions

During the period the Company paid agency fees of £165,000 (2010: £62,400) in respect of professional services to Bond Wolfe, a partnership in which P P S Bassi is a partner, and rent and service charges of £115,000 (2010: £93,000) to Bond Wolfe Estates Limited, a company in which P P S Bassi is a director and shareholder.

During the period the Company paid professional fees of £3,000 (2010: £5,750) to, and received rental income of £52,000 (2010: £52,000) from CP Bigwood Chartered Surveyors, a company in which P P S Bassi and M H P Daly are directors and shareholders.

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

14. Post balance sheet events

On 23 March 2012 the Company raised net cash of £3.7 million by refinancing certain properties with Aviva and raising £10.3 million and repaying bank debt of £6.6 million.