International Real Estate

Interim Report 2003

THE CHAIRMAN'S STATEMENT

The Interim Report and Accounts to 30 June 2003 reflect the refocused Group with the majority of its operations now located in Belgium.

Currently the main activity of the Group is related to its two trading properties in Belgium – the IT Tower and QPT Tower office blocks in Brussels.

The effects of the slowdown in economic activity have been less of a problem for the Brussels property market, compared to most other European capitals. Whilst the investment market remains very strong Brussels has had some problems, especially with the office letting market. During the current period several property acquisitions were considered and a number are being analysed.

With respect to the IT Tower, the 22,778 square metre landmark office tower situated on Avenue Louise, our main efforts have been focused on the letting situation, the rolling refurbishment programme and the investment programme for the communal areas.

The major parts of the investment programme are finished, in line with previous plans and budgets.

To date we have been able to secure contracts for 2,660 square metres at rental levels between €180 and €190, an improvement on previous levels. The full effect of these lettings will not be realised until 2004, as a number of agreements are for areas where the refurbishment works have not yet been completed or for space that requires tenant fit out. The occupancy ratio, based on total square metres, is 82% as at 16 September 2003.

Fully let, the property is forecast to produce rents of €4.32 million per annum, giving a gross yield of 9.4% on cost including refurbishments.

The 11,255 square metre QPT Tower located at Quai aux Pierres de Taille in Brussels is fully let to high quality tenants with an average length of leases of more than 4 years

The property is producing rents of €1.07 million per annum, giving a gross yield of 11.3% on cost.

On 4 April 2003, the Group sold the 36,288 square metre warehouse and office property in Aartselaar near Antwerp, Belgium. The sale for €11.314 million generated a profit before tax of €153,000. In addition previously provided deferred tax under FRS 19 of €293,000 was no longer required. The addition to shareholders' funds was €446,000, with a cash contribution of €5.6 million for the Group. However the sale will result in a significant reduction in gross rental income pending re-investment in property.

A full explanation of the ongoing litigation with our Joint Venture Partners, Stratford UK Properties LLC ("Oaktree") and Mr Aubrey Glaser, the former Managing Director, is included in Note 6 'Contingent liabilities' in the attached Interim Accounts.

On the basis of legal advice received, the Board of Directors considers that the Company is unlikely to incur any material loss as a result of the Oaktree litigation and therefore no provision has been included in the accounts, however the matter will be kept under review. The Company was granted leave to appeal to the House of Lords.

The UK portfolio consists of the Limited Partnership property in Basingstoke, in which the Group has a 25% interest. Note 10 explains the status of the limited partnership and the fundamental uncertainties surrounding it.

The net asset value as at 30 June 2003 was €2.60 per share (31 December 2002: €2.62 per share).

The net asset value including unrecognised trading stock value, would be €3.88 per share before tax (31 December 2002: €4.07 per share) or €3.43 net of taxes (31 December 2002: €3.56)

As previously reported, the Company has implemented FRS 19 resulting in full provision without discounting, for deferred taxes relating to its Belgian operations at the current Belgian tax rate of 33.99%. During the period the sale of the Company owning the Aartselaar property took place resulting in a net tax credit for the period. However additional provisions for deferred tax are likely to be required in the second half of the year.

Once there has been the appropriate change in legislation the Group intends to only publish its annual accounts and interim statements on the Internet (www.IREplc.com) in order to speed up distribution and to reduce costs.

The outlook for the second half of the year is difficult to project. It will depend largely on whether the Appeal to the House of Lords has been decided, developments relating to the Basingstoke property and the limited partnership and other property disposals or purchases during the period.

The overall rental income is expected to be sufficient to cover our financing costs and administrative expenses.

The Company's net borrowings at 30 June 2003 have reduced to €34.256 million from €43.885 million at 31 December 2002 due to the sale of the Aartselaar property.

The share price reflects a substantial discount to net asset value and your Board of Directors continues to examine ways of reducing this discount.

The Board proposes to pay an interim dividend of 3.0 pence (4.4 eurocents) per share (30 June 2002: 3.0 pence or 4.8 eurocents per share) partly out of reserves, payable on 21 October 2003, to shareholders on the register on 26 September 2003. The Board will carefully review the level of the final dividend based on the second half result.

I would like to take this opportunity to thank my fellow directors, Management team and all of our staff and consultants who have worked so hard and diligently during the period.

Rolf L Nordström, Chairman
16 September 2003

INDEPENDENT REVIEW REPORT TO INTERNATIONAL REAL ESTATE PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2003 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of movements in shareholders' funds and the related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Fundamental uncertainty

In forming our conclusion, we have considered the adequacy of the disclosures in note 10 relating to the Company's 25% interest in a limited partnership. There are fundamental uncertainties as to:

- the value that will be realised from the property owned by the limited partnership;
- the amount of any liability the Company may have under guarantees it has given in respect of loans to the limited partnership; and
- the amount that the Company may be able to recover under a counter-indemnity from its limited partner.

The interim financial information does not take account of any adjustments that may be required following resolution of these uncertainties. Our conclusion is not qualified in this respect.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six month period ended 30 June 2003.

Deloitte & Touche LLP
Chartered Accountants
London

16 September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

	Note	**Six month period ended 30.6.2003**	Six month period ended 30.6.2002	Year ended 31.12.2002
		€'000 Unaudited	€'000 Unaudited	€'000 Audited
Turnover	2			
Net rental income		**1,906**	2,713	5,133
Property sales		**11,314**	–	285
		13,220	2,713	5,418
Cost of sales		**(11,161)**	–	(80)
Gross Profit	3(a)	**2,059**	2,713	5,338
Exceptional charges – Litigation	3(b)	**(38)**	–	(141)
Impairment in value of investment property	3(b)	**–**	–	(139)
Other administrative expenses		**(866)**	(997)	(1,959)
Total administrative expenses		**(904)**	(997)	(2,239)
Other operating income		**–**	–	58
Operating Profit and Profit on Ordinary Activities before Interest and Taxation	2	**1,155**	1,716	3,157
Interest receivable and similar income		**128**	171	299
Interest payable and similar charges		**(1,033)**	(1,259)	(2,355)
Movement in fair value of derivatives		**(200)**	–	(252)
Total interest payable		**(1,233)**	(1,259)	(2,607)
Profit on Ordinary Activities before Taxation		**50**	628	849
Tax credit/(charge) on profit on ordinary activities	4	**151**	(363)	(752)
Profit on Ordinary Activities after Taxation and Profit for the Financial Period		**201**	265	97
Equity dividends		**(318)**	(354)	(697)
Retained Loss for the Financial Period		**(117)**	(89)	(600)
Basic and diluted earnings per share	5	**€0.03**	€0.04	€0.01

The results for the above periods reflect the continuing operations of the group.

There are no recognised gains or losses in any of the above periods other than the loss for the periods.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003

	Note	**30.6.2003**	30.6.2002	31.12.2002
		€'000 Unaudited	€'000 Unaudited	€'000 Audited
Fixed Assets				
Investment properties	10	**957**	1,157	1,017
Other tangible assets		**17**	66	37
Investments		**2**	2	2
		976	1,225	1,056
Current Assets				
Stock – trading properties	7	**55,634**	63,367	65,746
Debtors		**1,500**	1,726	1,426
Cash at bank and in hand		**6,412**	5,884	2,806
		63,546	70,977	69,978
Current Liabilities				
Creditors: amounts falling due within one year				
– Borrowings		**(965)**	(1,433)	(1,234)
– Other		**(4,075)**	(4,401)	(4,281)
		(5,040)	(5,834)	(5,515)
Net Current Assets		**58,506**	65,143	64,463
Total Assets Less Current Liabilities		**59,482**	66,368	65,519
Creditors: amounts falling due after more than one year				
– Borrowings		**(39,703)**	(46,045)	(45,457)
Provisions for liabilities and charges:				
Deferred taxation		**(650)**	(566)	(816)
Net Assets		**19,129**	19,757	19,246
Capital and Reserves				
Called up share capital		**4,683**	4,683	4,683
Share premium account	8	**7,957**	7,957	7,957
Capital redemption reserve	8	**291**	291	291
Profit and loss account	8	**6,198**	6,826	6,315
Equity Shareholders' Funds		**19,129**	19,757	19,246

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

	Note	**Six month period ended 30.6.2003**	Six month period ended 30.6.2002	Year ended 31.12.2002
		€'000	€'000	€'000
Profit for the financial period		**201**	265	97
Dividends		**(318)**	(354)	(697)
Net reduction in Shareholders' funds		**(117)**	(89)	(600)
Opening Shareholders' funds as restated		**19,246**	19,846	19,846
Closing Shareholders' Funds		**19,129**	19,757	19,246

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

	Note	**Six month period ended 30.6.2003**	Six month period ended 30.6.2002	Year ended 31.12.2002
		€'000	€'000	€'000
Net cash inflow from operating activities	9(a)	**5,403**	2,166	936
Returns on investments and servicing of finance				
Interest paid		**(1,033)**	(1,121)	(2,272)
Interest received		**64**	170	299
		(969)	(951)	(1,973)
Taxation paid		**(33)**	(940)	(707)
Capital expenditure and financial investment				
Purchase of other tangible fixed assets		**–**	(14)	(14)
		–	(14)	(14)
Equity dividends paid		**(447)**	(775)	(1,196)
Cash inflow/(outflow) before financing	9(b)	**3,954**	(514)	(2,954)
Financing				
Repayment of amounts borrowed		**(463)**	(530)	(1,322)
Increase/(decrease) in cash		**3,491**	(1,044)	(4,276)
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash		**3,491**	(1,044)	(4,276)
Cash outflow from decrease in debt		**463**	530	1,322
Movement in net debt		**3,954**	(514)	(2,954)
Non cash movements	9(c)	**5,493**	–	–
Exchange movements		**182**	(201)	(52)
Net debt at 1 January		**(43,885)**	(40,879)	(40,879)
Net debt at end of period	9(b)	**(34,256)**	(41,594)	(43,885)

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

1 Preparation of interim financial information

This financial information has been prepared on the basis of the accounting policies set out in the full accounts for the year ended 31 December 2002.

The financial information contained in this report does not constitute statutory accounts within the meaning of S240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2002 have been delivered to the Registrar of Companies and the audit report on those accounts was unqualified and did not contain any statements under section 237 of the Companies Act.

2 Segmental Analysis

	Six month period ended 30.6.2003			Six month period ended 30.6.2002			Year ended 31.12.2002		
	Turnover	**Operating (Loss)/ Profit**	**Net Assets**	Turnover	Operating (Loss)/ Profit	Net Assets	Turnover	Operating (Loss)/ Profit	Net Assets
	€'000	**€'000**	**€'000**	€'000	€'000	€'000	€'000	€'000	€'000
United Kingdom									
Investment	**(41)**	**(81)**	**93**	69	69	(234)	136	(136)	98
Trading	**(13)**	**–**	**(990)**	–	–	2,198	(26)	–	154
Administration and other	**–**	**(906)**	**–**	–	(715)	–	–	(1,519)	–
	(54)	**(987)**	**(897)**	69	(646)	1,964	110	(1,655)	252
Continental Europe									
Trading	**13,274**	**2,142**	**20,026**	2,644	2,362	17,793	5,308	4,812	19,994
	13,220	**1,155**	**19,129**	2,713	1,716	19,757	5,418	3,157	19,246

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

3 Income and charges

(a) Turnover and gross profit include €11,314,000 and €153,000 respectively relating to the disposal of the Aartselaar trading property on 4 April 2003. The post tax profit on disposal was €446,000, reflecting the release of deferred tax provisions.

		Six month period ended 30.6.2003	Six month period ended 30.6.2002	Year ended 31.12.2002
		€'000	€'000	€'000
(b)	Other litigation and related exceptional costs	**38**	–	141
	Provision for impairment in value of investment properties	**–**	–	139
		38	–	280

4 Tax on Profit on Ordinary Activities

	Six month period ended 30.6.2003	Six month period ended 30.6.2002	Year ended 31.12.2002
	€'000	€'000	€'000
The tax credit/(charge) on the profit on ordinary activities for the period was as follows:			
UK Corporation tax at 30.00%	**–**	–	–
Adjustment in respect of prior year	**(10)**	(16)	(150)
Current tax charge	**(10)**	(16)	(150)
Deferred taxation: timing difference	**161**	(347)	(636)
Deferred taxation: decrease in tax rate	**–**	–	34
	151	(363)	(752)

NOTES TO THE ACCOUNTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

5 Earnings per share

	Six month period ended 30.6.2003	Six month period ended 30.6.2002	Year ended 31.12.2002
Earnings per share are calculated as follows:			
Profit for the period	**€201,000**	€265,000	€96,706
Weighted average number of shares in issue	**7,357,446**	7,357,446	7,357,446
Basic and diluted earnings per share	**€0.03**	€0.04	€0.01

6 Contingent Liabilities

By a circular dated 11 February 1998, the Company announced its entry into a limited partnership with Stratford UK Properties LLC ('Oaktree'), an entity owned by Oaktree Capital Management LLC which is based in the United States of America. On 30 March 2000 a Supplemental Agreement ('Agreement') was entered into with Oaktree purporting to vary the terms of the partnership. It was executed on behalf of the Company, by the then Managing Director, Aubrey Glaser, and the then Company Secretary. This Agreement purported to give Oaktree the right (*inter alia*) to require the Company to buy out the Oaktree share of the partnership on terms highly beneficial to Oaktree in the event of a change of control of the Company or the departure or non involvement in management of the Chairman (who had no knowledge of the Agreement) or Aubrey Glaser.

In June 2001 Oaktree purported to invoke the terms of the Agreement requiring the Company to buy out the Oaktree share on the basis set out above, which on current estimates would cost the Company approximately €12 million, increasing annually at a rate of 25% compounded monthly.

The Company claims the Agreement is unenforceable and accordingly on 10 July 2001 the Company issued proceedings in the High Court for an order that the Agreement be set aside. On the Company's application for summary judgement Mr. Justice Hart found in favour of the Company and made a declaration that the Agreement was unenforceable against it. The decision was reversed by the Court of Appeal, but the House of Lords has granted leave to appeal. On the basis of legal advice it has now received, the Board of Directors continues to believe that the Company is unlikely to incur a material loss as a result of the Agreement and therefore no provision has been included in the accounts for this contingent liability, but the matter will be kept under review.

In September 2001 the Company received a claim from Mr. Glaser for compensation for loss of office totalling €404,000 (£280,000). The Company is vigorously defending this claim and having regard to the legal advice received by the Company, no provision has been included in the accounts for this contingent liability.

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

7 Stocks – trading properties

Trading properties at 30 June 2003 comprise the IT Tower and the QPT Tower, Brussels.

8 Reserves

	Share premium Account	**Capital Redemption Reserve**	**Profit and Loss Account**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
At 1 January 2003	7,957	291	6,315	**14,563**
Retained loss for the financial period	–	–	(117)	**(117)**
	7,957	**291**	**6,198**	**14,446**

9 Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

	Six month period ended 30.6.2003	Six month period ended 30.6.2002	Year ended 31.12.2002
	€'000	€'000	€'000
Operating profit	**1,155**	1,716	3,157
Depreciation and amortisation charges	**20**	44	85
Impairment in value of investment property	**–**	–	139
Decrease/(increase) in trading properties (see note 10(c))	**4,619**	(1,341)	(3,720)
(Increase)/decrease in debtors	**(75)**	423	638
(Decrease)/increase in creditors	**(316)**	1,324	637
Net cash inflow/(outflow) from operating activities	**5,403**	2,166	936

(b) Analysis of net debt

	At 1 January 2003	Cash Flow	Other non-cash movements	Exchange Movements	**At 30 June 2003**
	€'000	€'000	€'000	€'000	**€'000**
Cash at bank and in hand	2,806	3,491	–	115	**6,412**
Debt due within one year	(1,234)	463	(261)	67	**(965)**
Debt due after one year	(45,457)	–	5,754	–	**(39,703)**
	(43,885)	3,954	5,493	182	**(34,256)**

(c) Major non-cash transactions

As part of the consideration following the disposal of the Aartselaar trading property on 4 April 2003, €5,493,000 of debt was transferred to the purchaser. The decrease in trading properties for the period ended 30 June 2003 has been reduced by this amount in the reconciliation of operating profit to operating cash flows.

10 Basingstoke partnership

Investment property comprises the Company's 25% share of the investment in Mobius House, Basingstoke. The property, which was unlet, was valued at £2,650,000 (€4,068,000) by FPD Savills, Chartered Surveyors, in accordance with the requirements of the Royal Institute of Chartered Surveyors on 31 December 2002 on the basis of open market value. The Company's 25% share has been retranslated to €957,000 at 30 June 2003.

The property is owned by a limited partnership between the Company and Stratford UK Properties LLC ("Oaktree"). The Company is in litigation with Oaktree, details of which are set out in note 6.

The partnership is financed as follows:

1. A senior loan of £1,800,000 (€2,601,000) which is non recourse to the Company and in respect of which the Company has given a guarantee on any interest shortfall.
2. A junior loan of £980,000 (€1,416,000) in respect of which the Company has given a guarantee on both principal and any interest shortfall.

The Company has the benefit of a counter-indemnity from Oaktree for its 75% share of any payments under the guarantees.

The Group has proportionally consolidated its 25% share of the partnership's property, loans and other assets and liabilities. At 30 June 2003 interest payments were up to date. No provision has been included for any of the guarantees and counter indemnities at 30 June 2003.

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2003

Since 30 June 2003 notice has been served by the senior lender that its non recourse loan is in default and repayment has been demanded. As a consequence of this, the junior lender's loan is now in default. Although the Company and Oaktree have agreed a plan with the lenders for the early realisation of the Basingstoke property, in these circumstances, there are fundamental uncertainties as to:

- the value that may be realised;
- the Company's liability under the guarantees, which may be crystallised if the sale of the property realises less than the value of £2,650,000 set out above; and
- the amount that the Company will be able to recover under its counter-indemnity from Oaktree, in the event that it has a liability under the guarantees.

The interim statement does not reflect any adjustments that would be required if the property is sold for less than £2,650,000 and if the Company is unable to recover any payments under guarantees from Oaktree. The directors estimate that the maximum potential loss to the Company arising from these uncertainties is less than £1 million (€1.44 million).

As a consequence of the loan defaults referred to above, amounts totalling £670,000 (€968,000) disclosed as creditors falling due in more than one year at 30 June 2003 became a current liability with effect from 13 August 2003.

PROPERTY SCHEDULE

AT 16 SEPTEMBER 2003

Lettable Location		Leasehold	m^2	Occupancy	Freehold or Ground rent per annum
INTERNATIONAL REAL ESTATE PLC WHOLLY OWNED					
IT Tower Brussels, Belgium	Office	Leasehold to 2066	22,778	82%	€5,000
Quai Aux Pierres de Taille Brussels, Belgium	Office	Freehold	11,696	100%	
Total, wholly owned properties:			**34,473**		
PARTNERSHIP PROPERTIES					
Criterion-Stratford (Basingstoke) Limited at 25% interest					
Basingstoke – Mobius House Viables Industrial Estate, Basingstoke	Office	Leasehold to 2107	4,093	0%	18% of rent received
TOTAL, OWNED OR UNDER MANAGEMENT:			**38,566**		
SUMMARY:					
International Real Estate PLC wholly owned properties			**34,473**		
International Real Estate share of Partnership Properties @ 25%			**1,023**		
TOTAL, WHOLLY OWNED AND SHARE OF PARTNERSHIP:			**35,496**		

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