



# International Real Estate

Annual Report 2002



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*QPT Tower, Quai aux Pierres de Taille, Brussels  
11,696 m<sup>2</sup> – Bought December 2001*

# DIRECTORS AND ADVISERS

## **Directors**

Rolf L Nordström  
*Chairman*

Daniel Akselson  
*Chief Executive Officer*

John S Lamb  
*Senior Independent Non-executive*

Michael J de H Bell  
*Independent Non-executive*

Michel Berges  
*Independent Non-executive*

Sir Eric Parker  
*Independent Non-executive*

## **Secretary**

Tom Shannon

## **Registered Office**

34 St James's Street  
London SW1A 1HD

## **Registration No.**

2101254 – Registered in England and Wales

## **Stockbrokers**

KBC Peel Hunt Limited  
62 Threadneedle Street  
London EC2R 8HP

## **Auditors**

Deloitte & Touche  
Chartered Accountants & Registered Auditors  
London

## **Solicitors**

The City Law Partnership  
99 Charterhouse Street  
London EC1M 6NQ

Denton Wilde Sapte  
Five Chancery Lane  
Cliffords Inn  
London EC4A 1BU

## **Bankers**

HBOS plc

## **Registrars and Transfer Office**

Capita IRG plc  
The Registry, 34 Beckenham Road  
Beckenham, Kent BR3 4TU

## **Share Price Information**

The Financial Times Cityline Service: 09068433106

# INTERNATIONAL REAL ESTATE PLC

IT IS THE AIM OF INTERNATIONAL REAL ESTATE PLC  
to enhance shareholder value through:

- active management of our property portfolio;
- a programme of carefully selected property acquisitions and disposals;
- strengthening the Company's returns by working with partners,  
when and where appropriate;
- increasing earnings per share;
- increasing net asset value per share.

# CHAIRMAN'S STATEMENT

The Annual Report and Accounts to 31 December 2002 show the refocused Group with its main operations located in Belgium. The comparative period for 2001 included the profits from the disposal of the majority of the UK property portfolio.

To better reflect the activities of the Company the Shareholders decided, at the AGM, on 30 May 2002 a change of name to **INTERNATIONAL REAL ESTATE PLC.**

As previously reported we converted into Euro (€) accounting from 2001. This has simplified accounting and better reflects the Group's functional currency. The share price and dividend continue to be expressed in Pounds Sterling.

## **Financial highlights**

The main financial highlights for the year ended 31 December 2002 (the year ended 31 December 2001 within brackets) include:

- Profit on ordinary activities before taxation €849,000 (€5,768,000).
- Net asset value (NAV) as reported at 31 December 2002 €2.62 per share (€2.69 per share).
- Unrecognised trading stock value adds approximately €1.50 per share to the NAV gross before tax (€1.38 per share) or €0.98 net of taxes at an assumed net average rate of 35% (€0.90).
- Total NAV gross before tax of €4.07 per share (€4.07 per share) or €3.56 net of taxes (€3.59).
- Proposed final dividend of 3.00 pence or €0.05 per share, making a total for the year of 6.00 pence or €0.10 per share (total dividend of 10.00 pence or €0.16 per share).
- Earnings per share €0.01 or 0.67p per share (€0.57 per or 35.43p share).

The Group's result this year includes exceptional charges of €141,000 relating to the litigation with Oaktree (an update on this litigation is included later under Corporate matters), and €139,000 provided for the Company's share of the diminution in value of the Limited Partnership property, Mobius House, Basingstoke.

Comparative figures for the year ended 31 December 2001 included exceptional costs amounting to €469,000 and a €1,163,000 provision for the Company's share of the diminution in value of the Limited Partnership property.

## **Property portfolio**

The remaining UK property investment consists of a 25% interest in the Limited Partnership which owns Mobius House, Basingstoke.

As previously reported, the sole tenant in this property, Dolphin Telecommunication Services Limited, went into administration on 1 August 2001 and vacant possession was obtained on 22 March 2002. The Limited Partnership generated income through an insurance policy covering one year's loss of rent from July 2001 to June 2002.

The Limited Partnership is actively working on re-letting or selling the property. The market is weak due to oversupply of new developments and refurbished properties in the Basingstoke area. In the meantime the Limited Partnership is evaluating various refurbishment alternatives. An external valuation at 31 December 2002 resulted in a further diminution in the value of the Company's 25% interest in the Limited Partnership which has been written down from €1,226,000 to €1,017,000 to reflect the reduction in the underlying property value.

During 2002 the main activities of the Group related to the IT Tower and the QPT Tower office blocks in Brussels and the Aartselaar warehouse property in Antwerp.

Although the Brussels market has held up better than most European property markets, the slowdown in economic activity had some negative influence on the letting market.

At the IT Tower, a 22,778 square metre landmark office building prominently located on Avenue Louise at the corner of Avenue de Mot, we focused on the letting situation, the rolling refurbishment programme and the improvement programme for the communal areas. The combination of the refurbishment programme during the latter part of 2002 and the economic climate during the year resulted in a lower level of lettings than we originally forecast. However, of the three floors taken back for refurbishment, one is fully let at an increased rent level whilst

the other two remaining floors are subject to active negotiation. So far during 2003, a total of 2,032 square metres has been let at rental levels between €180 and €190 per square metre, which is higher than the average level realised during 2002. Some agreements are for areas that are not yet available as they are let to other tenants or require a fit out. The full effect of these lettings is unlikely to be realised until January 2004. In April 2003 the letting situation for the tower portion of the building was 82.0%, including pre-let areas. Fully let, the building is estimated to produce an income of approximately €4.41 million, equating to a gross yield of 9.8% on cost including refurbishments. The refurbishment programme for the communal areas including the entrance, lobby, lifts and parking garage has progressed according to plan and budget.

The 11,255 square metre QPT Tower, located at Quai aux Pierres de Taille in central Brussels, is fully let to high quality tenants with the average length of leases approximately five years. On 3 July 2002 we sold to the Brussels Municipality 214 square metres of land (out of the total of 2,792 square metres) following an expropriation procedure, resulting in a pre tax profit of €205,000. The property produces an income of approximately €1.07 million and a gross yield of 11.3% on cost.

Our third Belgian property, the 36,288 square metre warehouse and office building in Aartselaar near Antwerp was sold in April 2003 via the disposal of a company with an attributable value for the property of €11.975 million. This transaction will be accounted for in 2003, and resulted in a small profit. The Company sold its property in Aartselaar to strengthen its liquidity. However, this will also cause a significant reduction in gross rental income going forward.

A schedule of our property portfolio as at 29 April 2003 is to be found on page 11.

#### **Corporate matters**

In my last two Chairman's statements, I have reported on the legal situation relating to the dismissal of Mr. Aubrey Glaser as Managing Director on 3 April 2001, and the litigation with Stratford UK Properties LLC ('Oaktree').

A full explanation of the ongoing litigation with Mr. Aubrey Glaser and Oaktree is included in Note 27 Contingent Liabilities, in the attached Annual accounts.

The Company applied for Summary Judgment at a hearing on 13 and 14 March 2002, and on 27 March 2002 Mr. Justice Hart found in favour of the Company and made a declaration that the Agreement was unenforceable against it.

Oaktree was subsequently successful in its appeal against this decision, with the result that the case may proceed to trial. The Company challenged the Appeal Court decision, and a petition for leave to appeal to the House of Lords has now been granted.

On the basis of the legal advice it has 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.

We will continue to focus our attention on the future of the Company and upon delivering returns from our property assets in Europe. However, 2002 has been a difficult year for the property markets, and 2003 is unlikely to show much improvement.

Pending a change in legislation we intend to start publishing and distributing our annual accounts and interim statements on the internet ([www.IREplc.com](http://www.IREplc.com)) in order to speed up distribution and to reduce costs.

# CHAIRMAN'S STATEMENT

## CONTINUED

### **Taxation**

The adoption of FRS19, with full provision for deferred tax combined with the impact of unrelieved UK head office costs, resulted in a tax charge in profit and loss terms (non-cash) of 88% of net profits. Clearly this is not sustainable in the long term and we are examining various alternatives.

### **Cash and Borrowings**

Net borrowings at 31 December 2002 of €43.885 million compared with €40.879 million at 31 December 2001. The increase reflected the investment programme in our trading properties of €3.72 million and this in turn has contributed to the increase in value of our property portfolio. The year end cash position of €2.806 million will improve substantially as a result of the sale of Aartselaar.

### **Directors and Staff**

I would like to take this opportunity to thank my fellow Directors, staff and advisors for their hard work and dedication during the year helping us to further develop the Company.

### **Dividend**

The Board considered the results for the year in light of the uncertain economic climate and the outstanding litigation. In the circumstances your Board proposes to pay a final dividend of 3 pence per share (€0.05) partly payable from revenue reserves on 21 June 2003 to shareholders on the register on 23 May 2003. An interim dividend of 3 pence (€0.05) was paid on 18 October 2002 making a total for the year of 6 pence per share (€0.10) compared with 10 pence (€0.16) for the previous year.

The Board continues to be concerned at the share price discount to net asset value. The possibilities of a limited share buy back programme continue to be explored together with further property disposals.

### **Prospects**

The prospects for International Real Estate remain uncertain. Despite the tougher market conditions during the year we have been able to increase rental levels in the IT Tower and let the remaining floor at the QPT Tower. Even if 2003 proves to be a tougher year for the Brussels market, we believe that we will be able to improve cash flow and thus property values. However, we continue to examine the overall structure of the Group.

Although the litigation with Oaktree continues we are encouraged by the positive legal advice received concerning the likely final outcome. The market conditions in Belgium, relative to most other European property markets, remain promising and we have positioned the Company well in this market place. We are looking forward to a challenging year.



Rolf L. Nordström, Chairman  
29 April 2003



# BRUSSELS MARKET AND PROPERTY REVIEW

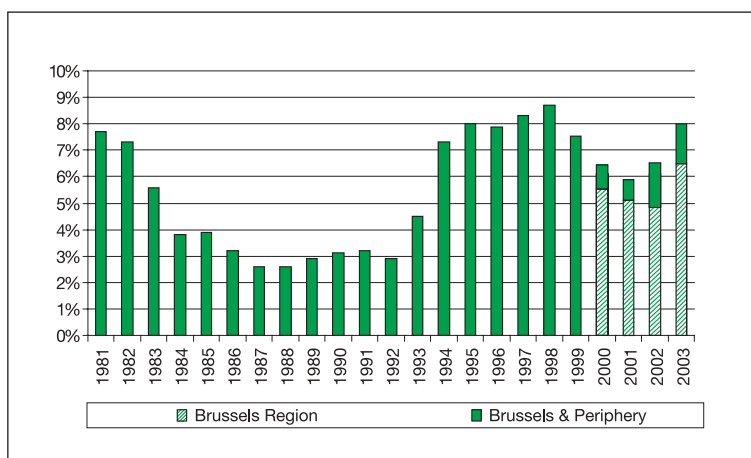
In addition to the information given in the Chairman's statement and the Property Schedule, Catella Codemer, a well-known property consultant in Brussels and Europe, has provided a summary of their view of the Brussels marketplace. A commentary on International Real Estate's position has been incorporated in this summary.

## Brussels market demonstrates its stability

### Market evolution

During 2002, the vacancy rate in Brussels and the Periphery has increased from 6.5% on 1 January 2002 to 8.0% on 31 December 2002. A total of 930,000m<sup>2</sup> is available within three months out of a total stock of 11,651,000m<sup>2</sup>. This increase is mainly due to the Brussels Region where the vacancy rate rose from 4.6% to 6.5% over the course of the year while the Periphery market stabilised at 17.5% (compared to 17.0% on 1 January 2002).

### Situation as at 1 January



The vacancy rate in the Central Business Districts (CBDs) has increased by 116,000m<sup>2</sup> in one year. The vacancy rate at year end was 4.6% compared to 3.0% on 1 January 2002. This level, which remains under the frictional rate, is mainly due to completion of 150,000m<sup>2</sup> in the context of no significant increase in demand from the Belgian administrations and the European Institutions.

### International Real Estate's evolution

International Real Estate's two Brussels properties are located in the Central District (Quai aux Pierres de Taille) and in the Louise District (IT Tower).

For the IT Tower the vacancy ratio for the office area increased, as a result of the refurbishment activities taking place, from 5.1% to 20.1% at 31 December 2002. During the period until 31 March 2003, we have been able to secure lease agreements corresponding to 2,032 square metres, thereby reducing the vacancy ratio to 17.8%. The new contracts have been secured at levels between €180-90 per square metre and year, that is above the level achieved during 2002.

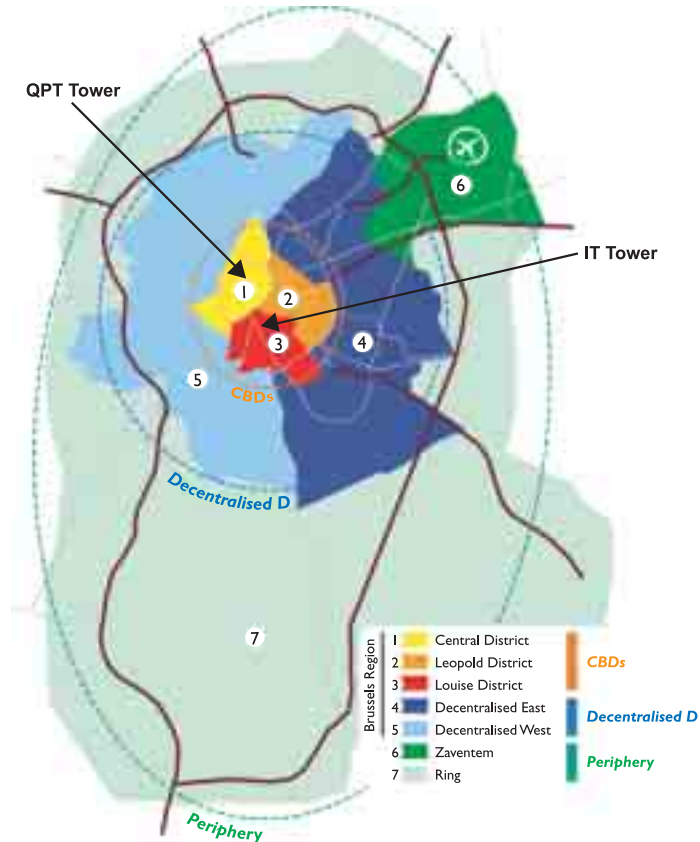
The Quai aux Pierres de Taille property was fully let at 31 December 2002.

### Take-up

With a take-up of 465,000m<sup>2</sup> Brussels has, once more, proved the stability of its office market. Indeed there was only a 9.0% decrease in take-up compared to 2001 (513,000m<sup>2</sup>). This places Brussels in fifth place and amongst the more stable cities in Europe, after Barcelona (10.0% increase), Madrid (no increase), Paris (4.0% decrease) and Dusseldorf (6% decrease).

# BRUSSELS MARKET AND PROPERTY REVIEW

CONTINUED



As in the past, the private sector has represented 70% of the total take-up.

- With 211,000m<sup>2</sup>, the CBDs attracted 45% of total take-up (compared to a five-year average of 53%) mainly due to the low demand from the European Institutions and Belgian State.
- With 112,000m<sup>2</sup>, the decentralised districts are the districts which have suffered the most. The decrease in the take-up (28% lower than in 2001) is mainly due to the economic climate which has forced Corporations to seek space at lower rental levels, which they have found in the Periphery.
- With 143,000m<sup>2</sup> taken-up and 44% of private sector take-up the Periphery became the Corporations favoured submarket, to the detriment of the decentralised districts. This is mainly due to a better accessibility by car, lower taxes and rents than the Brussels Region, and good quality available office space.

## Rental levels

The Brussels market has confirmed its strength in increasing rental levels:

- Prime rents moved up from €233 per square metre per year to €275 per square metre per year with a 1,500m<sup>2</sup> letting in the Leopold district, representing an increase of 18%.
- The weighted third quartile rent decreased slightly by 3%, moving from €198 per square metre per year to €192 per square metre per year.
- The weighted average rent has stabilised at around €163 per square metre per year.

### International Real Estate's evolution

The rent agreements signed during 2002 in the IT Tower showed an increase in average rent of 5.6%, compared to 2001 (increase in 2001 was 12.1%). With an average rent of €177 per square metre per year at 31 December 2002 there is still room to improve the rents. Average rent for the property increased by 4.1% during 2002 compared to 2001 (increase in 2001 was 3.6%).

For Quai aux Pierres de Tailles the average rent is €91 per square metre per year.

### The Brussels investment market in 2002

With a volume of around €2.1 billion, the Brussels investment office market was very active. Half of transactions were realised by Belgian investors and the Sicafi and the other half by foreign investors, notably the Germans, who accounted for a quarter of the total investment volume.

45% of the transaction volume was in respect of portfolios, with 30% realised in the CBDs, 8% in the decentralised districts and 17% in the Periphery.

Yields remained steady at a good level in the different districts of Brussels and have decreased to around 6.20% in the CBDs.

### 2003 forecast

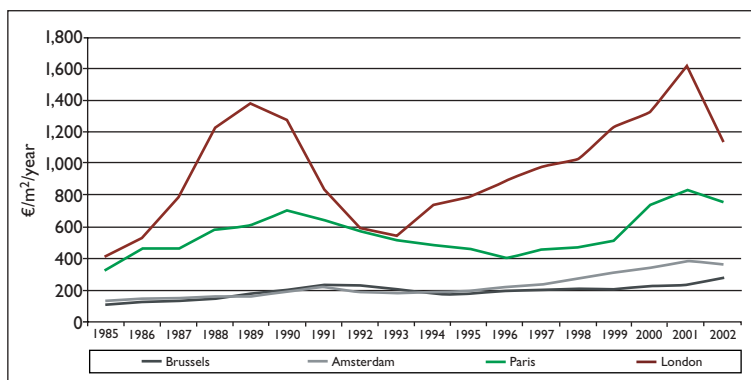
Office demand during the next two years should gain more momentum.

- If the economic forecasts in the Euro Zone countries remain in place (2003 : GDP growth of 1.0% compared to 0.8% in 2002), then private sector demand could reach around 300,000m<sup>2</sup>.
- The accession of 10 new Member States to the EU should generate in the next two years a demand of around 300,000m<sup>2</sup> from the European Institutions. Due to the lack of vacant quality space in the Leopold district, it is possible that some of the European Institutions' activities will have to be based in other submarkets.
- The Belgian administration, which continues to restructure its activities, should still take-up around 200,000m<sup>2</sup>, principally in the central district. During the 1st quarter of 2003 public administrators have already taken up 100,000m<sup>2</sup>.

Although office demand is likely to be stronger in 2003, quality supply is becoming scarcer. Indeed, in 2003, only 130,000m<sup>2</sup> of new unleased space is forecast to come on stream and only 110,000m<sup>2</sup> in 2004 in the Brussels Region.

### On a long term, Brussels promises a better performance than other European countries

**Nominal prime rents 1985 – 2002**



Brussels has always been a very stable market compared with other European main office markets.

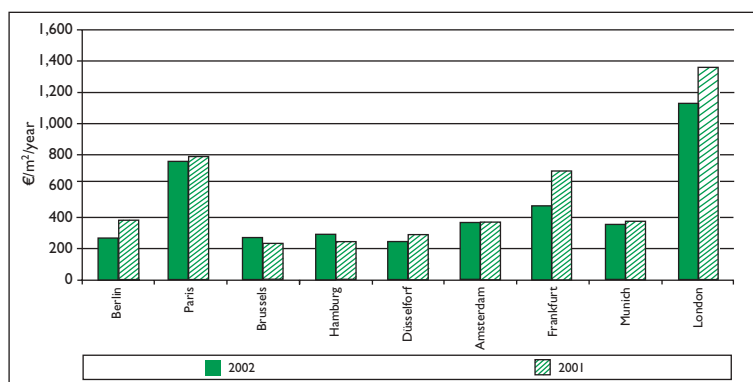
# BRUSSELS MARKET AND PROPERTY REVIEW

## CONTINUED

In the past, the main stability factors were an urban planning without very big constraints and the presence of multinational headquarters and of Belgian and European public administration. The supply has always been able to reply to the demand and therefore there has been no major pressure on the rents.

In this context, the value for office space has always been relatively low compared with other European countries (value of ground, construction prices and rents).

**Prime rents in Europe (€/m<sup>2</sup>/year)**



But in the future, four major factors could have a positive impact on the value for office space:

- the new urban plan, which highly reduces the development of new office areas;
- the increasing traffic will induce growing differences in the value and quality of locations (public transport network, train station, accessibility by car);
- the presence of Belgian and international administrations as well as headquarters of multinational companies, which constitutes a factor of stability in terms of take-up; and
- the extension of European institutions representing a large potential of increase at all levels.

In this context, with a decreasing offer and a stable or rising demand, the rents could increase in the best locations.

### **Conclusion**

An economic rebound will result in a continued market tightening in the Brussels Region and push rents for quality buildings in good locations in both the Brussels Region and Periphery further up.

### **International Real Estate conclusion**

Provided that Catella Codemer's prediction is correct, this would leave International Real Estate well placed to generate more value in its Brussels properties.

The performance of the Brussels office market, especially in relation to other European major city office markets, supports the decision to refocus the Company.

# PROPERTY SCHEDULE

at 29 April 2003

Location	Type	Freehold or Leasehold	Lettable m <sup>2</sup>	Occu- pancy	Ground Rent per annum
<b>INTERNATIONAL REAL ESTATE PLC WHOLLY OWNED</b>					
<b>IT Tower</b> Brussels, Belgium	Office	Leasehold to 2066	22,778	82%	€5,000
<b>Quai aux Pierres de Taille</b> Brussels, Belgium	Office	Freehold	11,695	100%	
<b>Total, wholly owned properties:</b>			<b>34,473</b>		
<b>PARTNERSHIP PROPERTIES</b>					
<b>Criterion – Stratford (Basingstoke) Limited</b>					
<b>Basingstoke – Mobius House</b> Viabes Industrial Estate, Basingstoke	Office	Leasehold to 2107	4,093	0%	18% of rent received
<b>TOTAL, OWNED OR UNDER MANAGEMENT:</b>			<b>38,566</b>		
<b>SUMMARY:</b>					
<b>International Real Estate PLC wholly owned properties</b>			<b>34,473</b>		
<b>International Real Estate PLC share of Partnership Properties at 25%</b>			<b>1,023</b>		
<b>TOTAL, WHOLLY OWNED AND SHARE OF PARTNERSHIP:</b>			<b>35,496</b>		



IT Tower, Brussels



Quai aux Pierres de Taille, Brussels

# REPORT ON CORPORATE GOVERNANCE

As required by the Financial Services Authority Listing Rules, paragraph 12.43A(a), the Board sets out below its application of the principles in the Combined Code

## **Company Organisation**

The Board comprises two executive Directors including an executive Chairman, and four independent non-executive Directors. The role of Chairman is held by Rolf L Nordström and that of Chief Executive by Daniel Akselson. The senior independent non-executive Director is John Lamb. The Board carries the responsibility for the overall conduct of the business of the Company and Group. It is responsible for the overall Group strategy and management, acquisition and divestment policy, internal control, approval of major capital expenditure projects and significant financing matters. Both regular and ad hoc reports and information are supplied in a timely manner to the Directors prior to each Board meeting. Board meetings are held approximately once every three months. The present Board consists of experienced Directors from the property, construction and financial services sectors. The principal committees of the Board are the Audit Committee, the Nominations Committee and the Remuneration Committee.

## **The Appointment of Directors**

All Directors have to retire by rotation every three years and submit themselves for re-election. Each non-executive Director has a separate Letter of Appointment setting out their non-executive duties and remuneration. All Directors are able to take independent professional advice in furtherance of their duties if necessary. All appointments to the Board are recommended through the Nominations Committee.

## **The Audit Committee**

The Audit Committee comprises all non-executive Directors with Sir Eric Parker holding the position of Chairman, with all executive Directors invited to attend. The Committee reviews the interim and final financial results before they are approved by the Board of Directors. The Audit Committee reviews any changes in accounting practice, major areas of judgement, the going concern assumption, compliance with accounting and regulatory principles, and ensures that the results represent a fair and meaningful assessment of the Company's financial performance and prospects. The auditors present a report to the Audit Committee at the interim and year end and are given the opportunity to speak confidentially to the Committee. The Audit Committee, at least annually, reviews the system of internal controls and the need for an internal audit function in the Company.

## **The Nominations Committee**

The Nominations Committee comprises all non-executive Directors along with Rolf L Nordström, who holds the position of Chairman. The Committee is authorised by and proposes to the Board any new Board appointments whether executive or non-executive directors within the guidelines laid down by the Board as a whole.

## **The Remuneration Committee**

The Remuneration Committee comprises all non-executive Directors with Michael Bell holding the position of Chairman. See the Directors' Remuneration Report on page 14.

## **Investor Relations**

Investor relations are managed mainly through the Annual General Meeting of the Company and on an ad hoc basis through enquiry from investors of the Directors of the Company. The Board encourages questions from shareholders at the Annual General Meeting during which the Chairmen of the Audit and Remuneration Committees, Sir Eric Parker and Michael Bell respectively, will be available to answer any shareholder questions.

The next Annual General Meeting will take place on 13 June 2003. Details of the business to be considered are contained in the Notice of Meeting, which accompanies this report.

## **Financial Reporting**

A review of the Group's significant property activities during the year is included in the Chairman's Statement on page 4. The Board uses this, together with the Report of the Directors on pages 17 and 18 to present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibility for the financial statements is described on page 19.

## **Internal Control**

The Directors acknowledge their responsibility for the Group's system of internal control and confirm that they have acted in accordance with the recommendations as set out in the Guidance "Internal Controls: Guidance for Directors on The Combined Code". An internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing significant business and financial risks faced by the Group was in place during the financial year and up to the date of signing these financial statements. Procedures include prioritising the Group's objectives and risks, monitoring the effect of change on risks and determining a control strategy for each of the significant risks. A risk management policy document has been prepared for the Board and has also been sent to all senior employees setting out the Board's attitude to risk in the achievement of the business objectives. The quarterly management information includes key risk indicators.

The Directors have performed a review of the effectiveness of the Group's internal controls during the period. Key control procedures include:

- the day to day supervision of the business by the executive Directors;
- the annual approval of budget and cash flow forecasts for the following year and quarterly monitoring of performance against budget and forecast through quarterly management accounts and cash reports;
- establishment of lines of responsibility and delegation of authority appropriate to the size of the Group;
- review of all key reports given to the Board including property appraisals, property reviews, cash flow and cash balance reports, quarterly management reports and share register movements;
- establishment of clear procedures and reports for rent and service charge collection and expenditure approvals and payment;
- the Group's policy to recruit and train good quality staff appropriate to their areas of duty and responsibility; and an annual review of staff performance by the executive Directors;
- the computer controls and procedures over the security of data held on computer systems, combined with comprehensive disaster recovery arrangements and regular testing by external consultants; and
- the day to day management and consideration of all major business and financial risks for the joint venture partnership.

All recommendations by the external auditors with regard to improvement and changes to the internal control procedures are considered for implementation by the Directors. Given the current size of the Group, the Directors consider that an internal audit function would not be appropriate.

#### **Going Concern**

After reviewing detailed cashflow projections, taking into account resources and borrowing facilities, making such further enquiries as they consider appropriate and taking account of their belief that the Oaktree litigation (see note 27 to the accounts) is unlikely to result in a material loss to the company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Statement of Compliance with the Combined Code**

Throughout the year the Company has been in compliance with the Code provisions set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

By Order of the Board

Tom Shannon, Secretary  
London, 29 April 2003

# DIRECTORS' REMUNERATION REPORT

This report is prepared in accordance with the requirements of the Companies Act 1985, which also requires that certain information included in the report is subject to audit. The auditable part of the report, as referred to in the Independent Auditors' Report, comprises the table of Directors' remuneration and the Summary of Share Option Rights.

A Remuneration Committee, which consists of all non-executive directors with Michael Bell holding the position of Chairman, determines the overall remuneration package for executive Directors. The Committee met once in 2002 and did not take any external advice. The Committee is responsible for advising on remuneration policy in order to attract and retain high quality executives capable of achieving the Group's objectives. The Remuneration Committee considers the Directors' performance and the remuneration for similar positions in other comparable companies. Remuneration is reviewed annually and comprises basic salary, bonus, medical insurance, life insurance and permanent health insurance. An element of Directors' remuneration is linked to performance by way of a Bonus Scheme and a Share Incentive Plan (the Plan) described below.

The Company's policy on external directorships is that, provided there is no direct conflict of interest, the Company does not object to the directors holding other directorships.

Fees for non-executive Directors are determined by the Board on the recommendation of the Chairman based upon comparable market levels. The non-executive Directors have service contracts for an indefinite period that can be immediately terminated by both parties on written notice without compensation. Furthermore and in accordance with the Articles of Association all Directors offer themselves for re-election once every three years.

Rolf L Nordström and Daniel Akselson have service contracts which can be terminated by the Company by one year's notice. The contracts contain provisions for compensation on termination of up to one year's remuneration.

No Director holds any share options other than those rights disclosed under the Plan below. Annual bonuses are awarded to key employees predominately on the basis of their individual achievements in relation to their areas of responsibility. In 2002 €7,500 was awarded in bonuses to executive Directors (2001: nil).

## Directors' remuneration

Details of the dates of directors' appointments, dates of service contracts and salaries are given in the table below.

	Appointment Date	Letter of Appointment/ Service Contract Date	Basic Salaries and Fees	Bonuses	Benefits in Kind	Year ended 31 Dec 2002 Total	Year ended 31 Dec 2001 Total
			€	€	€	€	€
Executive Directors'							
fees/salaries							
Rolf L Nordström	17 May 96	26 Jun 97	158,800	–	–	158,800	112,630
Daniel Akselson	01 Oct 01	19 Feb 02	209,403	7,500	–	216,903	49,037
Non-executive Directors'							
fees/salaries							
Sir Eric Parker	25 Mar 98	07 Nov 98	15,880	–	–	15,880	16,090
John Lamb	01 Sep 96	07 Nov 98	31,760	–	–	31,760	16,090
Michael Bell	09 May 94	07 Nov 98	15,880	–	–	15,880	16,090
Michel Berges	15 Feb 00	15 Mar 00	15,880	–	–	15,880	16,090
			447,603	7,500	–	455,103	266,027

Sir Eric Parker has a separate consultancy agreement with the Company payable at the rate of €23,820 (£15,000) per annum with effect from 1 January 2001.

No pension contributions were paid in respect of the Directors during the year ended 31 December 2002 (year ended 31 December 2001 – € nil).



## Directors' interests

The beneficial interests of the Directors in office at 31 December 2002 in the issued share capital were as follows:

	Ordinary shares of 40p each		
	1 January 2002	31 December 2001	29 April 2003
Rolf L Nordström (Swedish)*	4,382,311	4,382,311	4,382,311
Daniel Akselson (Swedish)	15,000	15,000	15,000
Michael Bell	5,000	5,000	5,000
Michel Berges (Belgian)	—	—	—
John Lamb	125,000	125,000	125,000
Sir Eric Parker	7,000	7,000	7,000

\*As at 31 December 2002 and 29 April 2003, Jermyn Business Limited, a company indirectly beneficially controlled by the Nordström family, held 4,382,311 shares in the Company (59.56%).

Apart from the interests stated above and the conditional rights in shares granted under the Share Incentive Plan, no Director held any beneficial or non-beneficial interest in any Group Company.

## Share Incentive Plan

By Ordinary Resolution dated 26 February 1998 the Company established The International Real Estate PLC (formerly Criterion Properties PLC) Share Incentive Plan, whereby International Real Estate PLC may advance sums to the International Real Estate Employee Share Trust (the Trust) in order for it to subscribe for shares in the Company. Such shares are to be held for the purpose of the Plan and otherwise for the general benefit of the Group's employees. The number of shares in the Company which may be held by the Trust at any time is limited to 5% of the issued ordinary share capital of the Company.

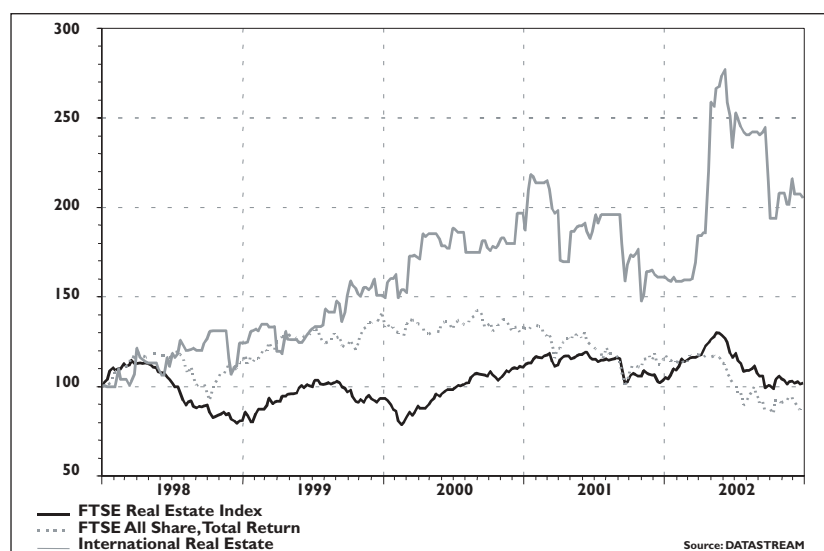
The Trustees of the Trust (acting on the recommendation and with the consent of the Remuneration Committee, but subject always to the exercise of its discretion) may grant conditional rights to acquire shares in the Company to selected employees. Rights which become vested will normally be exercisable after the end of three years only if a three year performance target, determined by the Remuneration Committee on the date the award is made, is exceeded.

The performance targets include the Company's performance relative to 20 comparable listed property companies as well as absolute performance for the development of the adjusted Net Asset Value (see page 4) per share.

In order for all the shares awarded under the Plan to be vested, the relative performance needs to be in the top one third of the comparable companies and the growth in adjusted Net Asset Value to represent at least 20% compounded annually.

To illustrate the performance to date, the chart below shows the Company's share price performance, with dividends re-invested, during the five year period ending on 31 December 2002 against the performance, with dividends reinvested, of the FTSE All Share and FTSE Real Estate indices respectively.

**Total Shareholders' Return**



# DIRECTORS' REMUNERATION REPORT

CONTINUED

## Summary of Share Option Rights

Director	At 1 Jan 2002	Granted	At 31 Dec 2002	Date from which exercisable	Expiry Date
Rolf L Nordström	23,333		23,333	9/8/2001	9/8/2008
	31,667		31,667	11/4/2002	9/8/2009
	30,000		30,000	11/4/2003	11/4/2010
Daniel Akselson		50,000	50,000	10/4/2005	10/4/2012
Total	85,000	50,000	135,000		

The total outstanding share option rights of 135,000 represent 1.83% of the total number of shares currently in issue (7,357,446).

The price payable to the Trustees upon exercise of a long term incentive award is £1.

Should an option holder leave the Company any options granted but not exercised would normally lapse unless decided otherwise by the Board.

The market price of the shares at 31 December 2002 was 115.5 pence. The range during the year was 160.0 pence to 96.0 pence.

During the year no monies have been paid into the Trust. Further details of the plan are give in Note 25 on page 35.

Chairman of the Remuneration Committee  
M J de H Bell

London, 29 April 2003

# REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31 December 2002.

## Principal Group activities

The Group's principal activity during the year was property investment and property trading. Details of the principal subsidiary undertakings are set out in note 13(c) to the accounts.

## Review of business and future developments

A summary of the results of the year's trading is given on page 21 and a review of the activities of the Group and of future developments is contained in the Chairman's Statement.

## Dividends

An interim dividend of 3.0 pence per share was paid on 18 October 2002 (year ended 31 December 2001 3.0 pence). The Directors recommended a final dividend for the year of 3.0 pence per share payable on 21 June 2003 making a total dividend of 6.0 pence per share for the year (year ended 31 December 2001, 10.0 pence in total).

## Directors

The names of the current Directors appear on page 2.

In accordance with the Articles of Association, John Lamb and Michael Bell retire by rotation. The retiring Directors, being eligible, offer themselves for re-election.

At the balance sheet date, Michael Bell, Michel Berges, John Lamb and Sir Eric Parker were non-executive Directors of the Company. The non-executive Directors do not participate in the Share Incentive Plan.

Rolf L Nordström, aged 48, has been investing in and managing properties in the UK and Europe since the early 1980s.

Daniel Akselson, aged 41, has been involved in property investment in Europe since the late 1980s.

Michael Bell is a fellow of the Institute of Actuaries. He is Chairman of Century Group Limited and its wholly owned subsidiary, Century Life Plc. From 1967-1993, he was a partner in the firm of R Watson & Sons, consulting actuaries.

Michel Berges is an experienced banker, director and Chairman of several industrial and service companies, Honorary Director of Fortis Bank (formerly Generale Bank S.A.).

John Lamb qualified as a Chartered Surveyor in 1966. He is Managing Director of Eskmuir Properties Limited, an investment company. He was previously Managing Director of Laing Properties Plc.

Sir Eric Parker, FCA, qualified as a Chartered Accountant in 1956. He joined Trafalgar House Plc in 1965 and retired as Chief Executive and Deputy Chairman in 1992.

## Substantial Shareholdings

The Company was advised of the following disclosable beneficial interests of 3% or more in its issued ordinary share capital.

	31.12.2002	29.4.2003
Jermyn Business Ltd	59.56%	59.56%
Butler Finance Limited and associates	7.25%	7.25%

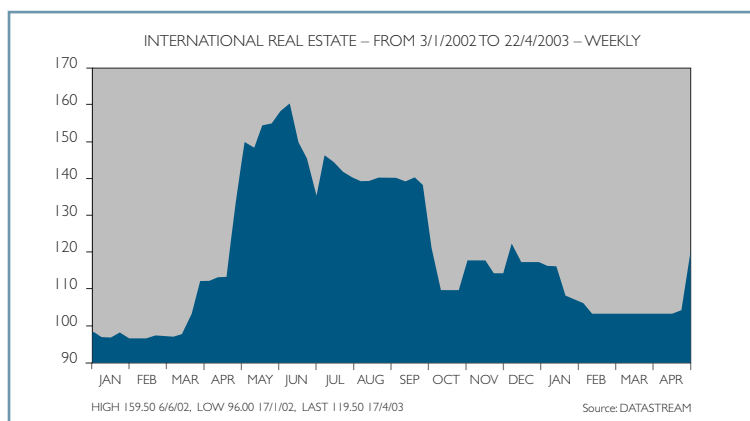
In addition, Aberdeen Asset Management PLC has advised that it holds a non-beneficial interest in 3.87% of the Company's issued ordinary share capital.

The Directors are not aware of any other disclosable interest in its shares of 3% or more.

# REPORT OF THE DIRECTORS

CONTINUED

## Share price development



## Purchase of own shares

The Company has shareholders' authority for the purchase of up to 10% of its own shares until 30 May 2003. The Company did not acquire any of its own shares during the year. A Special Resolution is to be proposed at the next Annual General Meeting to renew the authority granted to the Directors to make market purchases of up to 10% of the issued share capital.

## Treasury policy

The policy of the Group is to ensure that all cash balances earn a market rate of interest; that interest rate exposures are regularly reviewed and managed using fixed rate debt and hedging instruments where appropriate. Bank relationships are maintained to ensure that sufficient cash and unutilised facilities are available to the Group.

The Group's cash is managed through electronic cash management systems with the Group's clearing bank to maximise interest earned on its balances. Similarly the Group's liquidity is managed through regularly updated annual cash flow forecasts.

Interest rate risks are monitored and reported to the Board at each Board meeting. All uses of derivatives are pre-agreed by the Board prior to implementation.

Interest on existing debt comprised 1.6% at a fixed rate and 98.4% at a floating rate. The Group presently has in place interest rate hedges amounting to a notional value of €45.9 million, equating to 98% of the floating rate debt for an average period of 5.6 years.

## Creditor payment policy

The Group's current policy concerning the payment of all its trade creditors is to:

- (a) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- (b) ensure that suppliers are made aware of the terms of payment; and
- (c) pay in accordance with its contracted and other legal obligations.

At the end of the current and prior year there were no trade creditors.

## Auditors

On 1 June 2003, Deloitte & Touche will transfer their entire business to Deloitte & Touche LLP, a limited liability partnership formed pursuant to the Limited Liability Partnership Act 2000. However, at present they remain the company's auditors and have signed the accounts in that capacity. The company will be giving its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 June 2003. Accordingly, although the accounts have been signed in the name of Deloitte & Touche, a resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

Tom Shannon, Secretary

London, 29 April 2003

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal control and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERNATIONAL REAL ESTATE PLC (FORMERLY CRITERION PROPERTIES PLC)

We have audited the financial statements of International Real Estate Plc for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

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

## **Respective responsibilities of Directors and Auditors**

As described in the Statement of Directors' Responsibilities, the Company's Directors, are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

## **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Deloitte & Touche  
Chartered Accountants and Registered Auditors  
London

29 April 2003

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	Year ended 31 December 2002	Year ended 31 December 2001 As restated*
		€'000	€'000
<b>Turnover</b>			
Net rental income	2	5,133	4,733
Property sales	2	285	37,811
		<b>5,418</b>	42,544
Cost of sales		<b>(80)</b>	(28,607)
<b>Gross Profit</b>		<b>5,338</b>	13,937
Exceptional charges – Litigation	3(a)	<b>(141)</b>	(469)
Exceptional charges – Other	3(a)	–	(740)
Impairment in value of investment property	3(a)	<b>(139)</b>	(1,163)
Other administrative expenses		<b>(1,959)</b>	(1,926)
<b>Total administrative expenses</b>		<b>(2,239)</b>	(4,298)
Other operating income		<b>58</b>	–
<b>Operating Profit</b>	4	<b>3,157</b>	9,639
Impairment of fixed asset investments	3(b)	–	(457)
<b>Profit on Ordinary Activities before Interest and Taxation</b>		<b>3,157</b>	9,182
Interest receivable and similar income	6	<b>299</b>	492
Interest payable and similar charges	7	<b>(2,355)</b>	(2,467)
Exceptional finance costs	3(c)	<b>(252)</b>	(1,439)
<b>Total interest payable</b>		<b>(2,607)</b>	(3,906)
<b>Profit on Ordinary Activities before Taxation</b>		<b>849</b>	5,768
Tax on profit on ordinary activities	8	<b>(752)</b>	(1,581)
<b>Profit on Ordinary Activities after Taxation and Profit for the Financial Year</b>		<b>97</b>	4,187
Equity dividends	10	<b>(697)</b>	(1,160)
<b>Retained (Loss)/Profit for the Financial Year</b>	22	<b>(600)</b>	3,027
<b>Basic and diluted earnings per share</b>	9	<b>€0.01</b>	€0.57

The results for the above years reflect the continuing operations of the Group.

\*The comparative figures for the year ended 31 December 2001 have been restated to reflect the introduction of FRS19 "Deferred Taxation", as disclosed in note 22.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2002

	Notes	31 December 2002		31 December 2001 As restated*	
		€'000	€'000	€'000	€'000
<b>Fixed Assets</b>					
Investment properties	11		1,017		1,226
Other tangible assets	12		37		90
Investments	13(a)		2		20
			<b>1,056</b>		1,336
<b>Current Assets</b>					
Stock – trading properties	14	65,746		62,026	
Debtors	15	1,426		2,064	
Cash at bank and in hand		2,806		7,234	
		<b>69,978</b>		71,324	
<b>Current Liabilities</b>					
<b>Creditors:</b> amounts falling due within one year					
– Borrowings		(1,234)		(725)	
– Other		(4,281)		(4,482)	
	16	<b>(5,515)</b>		(5,207)	
<b>Net Current Assets</b>			<b>64,463</b>		66,117
<b>Total Assets Less Current Liabilities</b>			<b>65,519</b>		67,453
<b>Creditors:</b> amounts falling due after more than one year					
– Borrowings	17		(45,457)		(47,388)
<b>Provisions for Liabilities and Charges</b>					
Deferred taxation	20		(816)		(219)
<b>Net Assets</b>			<b>19,246</b>		19,846
<b>Capital and Reserves</b>					
Called up share capital	21		4,683		4,683
Share premium account	22(a)		7,957		7,957
Capital redemption reserve	22(a)		291		291
Profit and loss account	22(a)		6,315		6,915
<b>Equity Shareholders' Funds</b>			<b>19,246</b>		19,846

\*The comparative figures for the year ended 31 December 2001 have been restated to reflect the introduction of FRS19 "Deferred Taxation", as disclosed in note 22.

The financial statements were approved by the Board of Directors on 29 April 2003 and were signed on its behalf by:

Rolf L Nordström	} Directors
Daniel Akselson	



# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2002

	Notes	31 December 2002		31 December 2001	
		€'000	€'000	€'000	€'000
<b>Fixed Assets</b>					
Investment properties	11		<b>1,017</b>		1,226
Other tangible assets	12		<b>37</b>		90
Investments	13(b)		<b>576</b>		594
			<b>1,630</b>		1,910
<b>Current Assets</b>					
Stock – trading properties	14	–		6	
Debtors	15	<b>18,459</b>		17,889	
Cash at bank and in hand		<b>1,423</b>		4,261	
		<b>19,882</b>		22,156	
<b>Current Liabilities</b>					
<b>Creditors:</b> amounts falling due within one year					
– Borrowings		<b>(77)</b>		(54)	
– Other		<b>(4,996)</b>		(5,387)	
	16	<b>(5,073)</b>		(5,441)	
<b>Net Current Assets</b>			<b>14,809</b>		16,715
<b>Total Assets Less Current Liabilities</b>			<b>16,439</b>		18,625
<b>Creditors:</b> amounts falling due after more than one year					
– Borrowings	17		<b>(1,067)</b>		(1,626)
			<b>15,372</b>		16,999
<b>Capital and Reserves</b>					
Called up share capital	21		<b>4,683</b>		4,683
Share premium account	22(b)		<b>7,957</b>		7,957
Capital redemption reserve	22(b)		<b>291</b>		291
Profit and loss account	22(b)		<b>2,441</b>		4,068
<b>Equity Shareholders' Funds</b>			<b>15,372</b>		16,999

The financial statements were approved by the Board of Directors on 29 April 2003 and were signed on its behalf by:

Rolf L Nordström }  
 Daniel Akselson } Directors

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2002

	Year ended 31 December 2002	Year ended 31 December 2001 As restated
	€'000	€'000
Profit for the financial year	97	4,187
Impairment of investment properties charged to revaluation reserve	–	(150)
Total recognised gains and losses relating to the year	97	4,037
Prior year adjustment (note 22)	(127)	
<b>Total gains and losses recognised since the last annual report</b>	<b>(30)</b>	

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2002

	Year ended 31 December 2002	Year ended 31 December 2001 As restated
	€'000	€'000
Profit for the financial year	97	4,187
Dividends	(697)	(1,160)
	(600)	3,027
Impairment of investment properties charged to revaluation reserve	–	(150)
Net (reduction in)/addition to Shareholders' Funds	(600)	2,877
Opening Shareholders' Funds as previously reported	19,973	16,969
Prior year adjustment (note 22)	(127)	–
Opening Shareholders' Funds as restated	19,846	16,969
<b>Closing Shareholders' Funds</b>	<b>19,246</b>	<b>19,846</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	Year ended 31 December 2002		Year ended 31 December 2001	
		€'000	€'000	€'000	€'000
<b>Net cash inflow/(outflow) from operating activities</b>	23(a)		<b>936</b>		(6,127)
<b>Returns on investments and servicing of finance</b>					
Interest paid		<b>(2,272)</b>		(3,263)	
Interest received		<b>299</b>		492	
			<b>(1,973)</b>		(2,771)
<b>Taxation paid</b>			<b>(707)</b>		(832)
<b>Capital expenditure and financial investment</b>					
Purchase of and additions to investment properties		–		(3)	
Disposal of investment properties		–		10,645	
Purchase of other tangible fixed assets		<b>(14)</b>		(13)	
			<b>(14)</b>		10,629
<b>Equity dividends paid</b>			<b>(1,196)</b>		(829)
<b>Cash (outflow)/inflow before financing</b>			<b>(2,954)</b>		70
<b>Financing</b>					
New loans drawn down		–		40,648	
Repayment of amounts borrowed		<b>(1,322)</b>		(35,800)	
			<b>(1,322)</b>		4,848
<b>(Decrease)/increase in cash</b>			<b>(4,276)</b>		4,918
<b>Reconciliation of net cash flow to movement in net debt</b>					
(Decrease)/increase in cash			<b>(4,276)</b>		4,918
Cash outflow/(inflow) from decrease/(increase) in debt			<b>1,322</b>		(4,848)
Movement in net debt			<b>(2,954)</b>		70
Exchange movements			<b>(52)</b>		(195)
Net debt at 1 January			<b>(40,879)</b>		(40,754)
<b>Net debt at 31 December</b>	23(b)		<b>(43,885)</b>		(40,879)

# NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2002

## **I Accounting Policies**

### **(a) Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

### **(b) Basis of consolidation**

The consolidated accounts include the audited financial statements of the Company and its subsidiaries.

The results of the subsidiaries are consolidated from their effective dates of acquisition and up to their effective date of disposal.

Goodwill represents the excess of the purchase consideration over the fair value of net assets of an acquired business.

In accordance with FRS10 "Goodwill and intangible assets", goodwill arising on acquisition on or after 1 January 1998 is capitalised and amortised to the profit and loss account over its useful economic life. Goodwill arising on acquisitions prior to 1 January 1998 was written off directly to reserves and has not been reinstated. If an acquired business is subsequently sold, any attributable goodwill, which has not previously been dealt with in the profit and loss account, is taken into account in calculating the profit or loss on disposal of the business.

### **(c) Joint arrangement**

An undertaking is regarded as a joint arrangement if the group has a participating interest and joint control over its operating and financial policies, but the undertaking is not an entity distinguishable from the business of its investors. The Company has entered into a joint arrangement for the acquisition of investment properties.

In accordance with FRS9 "Associates and joint ventures", the Group accounts for its share of the individual items of income, expenditure, assets, liabilities and cash flows. The directors consider that this departure from the requirement of the Companies Act 1985 to account for participating interests in joint arrangements as associates is necessary for the financial statements to show a true and fair view because joint arrangements are in substance an extension of the Group's own business.

### **(d) Turnover**

Turnover represents sales of properties, lease surrenders and rents receivable net of rental expenses, excluding value added tax. Property sales are recognised in the period within which there is an unconditional exchange of contracts or irrevocable undertaking to sell.

### **(e) Investment properties**

In accordance with SSAP 19 "Accounting for Investment Properties" no depreciation is provided on investment properties. The Directors consider that this departure from the requirement of the Companies Act 1985 for all properties to be depreciated is necessary for the financial statements to show a true and fair view, since depreciation is reflected in the market valuation and cannot be separately identified.

Market value is based on professional valuations at 31 December annually. Any surplus or deficit on revaluation is transferred to the revaluation reserve except for permanent diminutions in value below historic cost which are written off to the profit and loss account.

### **(f) Tangible fixed assets**

Depreciation is provided on a straight line basis at the following annual rates in order to write off each asset over its estimated useful life:

Short leasehold improvements	– over the period of the lease
Fixtures, fittings and equipment	– 33%

No depreciation is provided on investment properties (see (e) above).

### **(g) Trading properties**

Properties held for resale are stated at the lower of cost and market value. Cost includes acquisition expenses and refurbishment expenditure in respect of major works and attributable interest and overheads.

## I Accounting Policies (continued)

### (h) Deferred taxation

As a result of the adoption of FRS 19 "Deferred Taxation" the accounting policy has changed and prior year balances have been restated.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

In relation to non-UK subsidiaries, where UK GAAP adjustments result in recognition of profits or losses in periods different from those of the subsidiaries' financial statements on which the foreign taxes are charged, then deferred tax liabilities or assets are set up and recognised on the resultant profits or losses.

Deferred tax is not provided on un-remitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

### (i) Financial instruments

Derivative instruments utilised by the Group include interest rate cap and collar arrangements. These instruments are used for hedging purposes to alter the risk profile of an existing exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate cap and collar arrangements are recognised as adjustments to interest expense over the period of the contracts.

### (j) Foreign exchange translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated into Euro at the rate of exchange ruling at the year end. The results of subsidiary undertakings and joint arrangements not reporting in Euro are translated into Euro using the temporal method. Exchange differences are dealt with in the profit and loss account.

### (k) Leases

Amounts payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

## 2 Segmental Analysis

	Turnover	Year ended 31 December 2002 Operating (Loss)/Profit	Net Assets	Turnover	Year ended 31 December 2001 as restated Operating Profit	Net Assets
United Kingdom	€'000	€'000	€'000	€'000	€'000	€'000
Investment	136	(136)	98	169	(2,711)	(363)
Trading	(26)	(1,519)	154	38,187	9,681	3,747
	110	(1,655)	252	38,356	6,970	3,384
Continental Europe						
Trading	5,308	4,812	18,994	4,188	2,669	16,462
	5,418	3,157	19,246	42,544	9,639	19,846

## 3 Exceptional charges

	Year ended 31 December 2002	Year ended 31 December 2001
	€'000	€'000
(a) Other litigation and related exceptional costs	141	469
Costs associated with the divestment of properties from the UK market	—	740
Provision for impairment in value of investment properties (see note 11)	139	1,163
	280	2,372

The provision for impairment in value of investment properties was included below operating profit in the 2001 financial statements. The Directors have reclassified it as a charge to operating profit in the comparatives above as they believe this gives a fairer presentation.

# NOTES TO THE ACCOUNTS

## CONTINUED

### 3 Exceptional charges (continued)

(b) Provision for impairment in Directors' valuation of unlisted property share investment	–	457
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### (c) Exceptional finance costs

	Year ended 31 December 2002	Year ended 31 December 2001
	€'000	€'000
Loan breakage costs	–	402
Other finance costs associated with the divestment from the UK market	–	500
Interest rate floor breakage costs	252	537
	<b>252</b>	<b>1,439</b>

### 4 Operating Profit

Group	Year ended 31 December 2002	Year ended 31 December 2001
	€'000	€'000
This is stated after charging:		
Depreciation of tangible fixed assets and amortisation of investments	85	790
Operating lease rentals – land and buildings	94	80
Auditors' remuneration – group audit	102	120
– tax fees	160	98
– other	48	77

The audit fee for the Company was €55,000 (2001 – €89,000).

### 5 Employees

	Year ended 31 December 2002	Year ended 31 December 2001
	No.	No.
(a) The average number of employees during the year was as follows:		
Administrative and management		
Executive Directors	2	2
Non-executive Directors	4	5
Other employees	2	2
	<b>8</b>	<b>9</b>
	€'000	€'000
(b) Wages and salaries	560	568
Social security costs	48	78
	<b>608</b>	<b>646</b>

(c) Details of Directors' remuneration are given in the Director's Remuneration Report on pages 14 to 16.

### 6 Interest receivable and similar income

	Year ended 31 December 2002	Year ended 31 December 2001
Interest receivable	299	492

## 7 Interest payable and similar charges

	Year ended 31 December 2002	Year ended 31 December 2001
	€'000	€'000
Bank loans and overdrafts	(2,268)	(2,448)
Loss on foreign exchange	(87)	(19)
	<b>(2,355)</b>	<b>(2,467)</b>

## 8 Tax on Profit on Ordinary Activities

	Year ended 31 December 2002	Year ended 31 December 2001 As restated
	€'000	€'000
The tax charge on the profit on ordinary activities for the year was as follows:		
UK corporation tax at 30.00% (2001 – 30.00%)	–	(1,762)
Adjustment in respect of prior year	(150)	308
Current tax charge	(150)	(1,454)
Deferred taxation: timing difference	(636)	(127)
Deferred taxation: decrease in tax rate	34	–
	<b>(752)</b>	<b>(1,581)</b>

The standard rate of tax for the year based on the UK standard rate of corporation tax is 30%. The current tax charge is different to the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December 2002	Year ended 31 December 2001
	€'000	€'000
Profit on ordinary activities before tax	849	5,768
Tax on profit on ordinary activities at standard rate	(255)	(1,730)
Expenses not deductible for tax purposes	(79)	(901)
Capital allowances in excess of depreciation	(2)	(34)
UK losses not recognised	(167)	–
Utilisation of tax losses brought forward	–	756
Movement in short term timing differences	–	44
Differences between Overseas and UK tax rates	(73)	–
Exchange rate loss in reserves	–	106
FRS19 Deferred tax charge	–	(127)
Dutch losses not recognised	(60)	–
Decrease in deferred tax rates	34	–
Adjustment in respect of prior year	(150)	305
	<b>(752)</b>	<b>(1,581)</b>

During the year the Group has implemented FRS19. Under FRS19 the Group is required to make full provision for deferred tax in respect of timing differences. No discounting has been applied. The deferred tax relates solely to operations in Belgium and has been provided at 33.99% (31 December 2001 – 40.17%), the current Belgian tax rate. The change in the accounting policy has increased the deferred tax charge for the year from nil to €602,000.

# NOTES TO THE ACCOUNTS

## CONTINUED

### 9 Earnings per share

	Year ended 31 December 2002	Year ended 31 December 2001 As restated
Earnings per share are calculated as follows:		
Profit for the year	<b>€96,706</b>	€4,186,915
Weighted average number of shares in issue	<b>7,357,446</b>	7,357,446
<b>Basic and diluted earnings per share</b>	<b>€0.01</b>	€0.57

### 10 Equity dividends

	Year ended 31 December 2002	Year ended 31 December 2001
	<b>€'000</b>	€'000
Interim paid of €0.05 (3.0p) per share (31 December 2001 – €0.05 (3.0p))	<b>354</b>	343
Proposed final dividend of €0.05 (3.0p) per share (31 December 2001 – €0.11 (7.0p))	<b>343</b>	817
	<b>697</b>	1,160

### 11 Investment Properties

Group and Company	Long Leasehold €'000
Valuation	
At 1 January 2002	<b>1,226</b>
Foreign exchange translation difference	<b>(70)</b>
Impairment	<b>(139)</b>
<b>At 31 December 2002</b>	<b>1,017</b>

This property is held through an investment in a joint arrangement and the carrying value at 31 December 2002 represents the Company's share of the investment property (note 1(c)).

This property, with a total value of €4,068,000 (2001 – €4,904,000), was valued by FPD Savills, Chartered Surveyors, (2001 – Jones Lang LaSalle, Chartered Surveyors) in accordance with the requirements of the Royal Institute of Chartered Surveyors on 31 December 2002, on the basis of market value. The Group's share of this was €1,017,000 (2001 – €1,226,000).

The historical cost of the Company's interest in the investment property was €2,404,685 (2001 – €2,404,685).

### 12 Other Tangible Fixed Assets

Group and Company	Short Leasehold Improvements €'000	Fixtures, Fittings and Equipment €'000	Total €'000
Cost			
At 1 January 2002	173	413	<b>586</b>
Additions	–	14	<b>14</b>
<b>At 31 December 2002</b>	<b>173</b>	<b>427</b>	<b>600</b>
Depreciation			
At 1 January 2002	173	323	<b>496</b>
Charge for year	–	67	<b>67</b>
<b>At 31 December 2002</b>	<b>173</b>	<b>390</b>	<b>563</b>
Net book values			
<b>At 31 December 2002</b>	<b>–</b>	<b>37</b>	<b>37</b>
At 31 December 2001	–	90	<b>90</b>



### 13 Fixed Asset Investments

(a) Group	Other Investments	Listed Investments	Total
	€'000	€'000	€'000
Cost			
At 1 January 2002	799	2	801
<b>At 31 December 2002</b>	<b>799</b>	<b>2</b>	<b>801</b>
Amortisation/provision for impairment			
At 1 January 2002	781	–	781
Charge for the year	18	–	18
<b>At 31 December 2002</b>	<b>799</b>	<b>–</b>	<b>799</b>
Net book values			
<b>At 31 December 2002</b>	<b>–</b>	<b>2</b>	<b>2</b>
At 31 December 2001	18	2	20

(b) Company	Shares in Subsidiary Undertakings	Other Investments	Listed Investments	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2002	685	799	2	1,486
<b>At 31 December 2002</b>	<b>685</b>	<b>799</b>	<b>2</b>	<b>1,486</b>
Provision/amortisation				
At 1 January 2002	111	781	–	892
Charge for the year	–	18	–	18
<b>At 31 December 2002</b>	<b>111</b>	<b>799</b>	<b>–</b>	<b>910</b>
Net book values				
<b>At 31 December 2002</b>	<b>574</b>	<b>–</b>	<b>2</b>	<b>576</b>
At 31 December 2001	574	18	2	594

#### Other investments

This investment includes payments, written off over three years, made for the purchase of 75,000 Ordinary Shares of the Company held by the Company's Employee Share Trust for the benefit of certain executive Directors for future awards of shares arising under the Share Incentive Plan which are contingent upon certain Group performance criteria being met. Further details of the Share Incentive Plan are included in the Directors' Remuneration Report on pages 14 to 16.

- (c) The Company's principal operating subsidiaries at 31 December 2002 were as follows:

	Nature of Business	Percentage Shareholding of Ordinary Shares	Country of Incorporation/Operation
Touquet Properties Limited	Property trading	100	Great Britain
Finlaw Forty-Nine Limited	Property trading	100	Great Britain
Touquet Europe B.V.	Property trading	100	Netherlands

These companies' operations are included in the Consolidated Financial Statements.

- (d) The Company is a limited partner in the Criterion-Stratford Umbrella Limited Partnership whose principal place of business is 34 St James's Street, London SW1 1HD. The Company accounts for its share of the assets, liabilities and cash flows of the Partnership.

### 14 Trading Properties

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	€'000	€'000	€'000	€'000
Properties held for resale	<b>65,746</b>	62,026	–	6

Included in the cost above is €731,000 (2001 – €731,000) of capitalised finance costs.

The property in Aartselaar was sold in April 2003 for €11,975,000 resulting in a small profit.

# NOTES TO THE ACCOUNTS

## CONTINUED

### 15 Debtors

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	€'000	€'000	€'000	€'000
Amounts falling due within one year				
Trade debtors	711	746	24	95
Amounts owed by group undertakings	–	–	18,009	17,611
Other debtors	145	683	12	157
Prepayments and deferred expenditure	570	635	414	26
	<b>1,426</b>	<b>2,064</b>	<b>18,459</b>	<b>17,889</b>

### 16 Creditors – Amounts falling due within one year

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	€'000	€'000	€'000	€'000
Bank loans and overdrafts (note 18)	1,234	725	77	54
Amounts owed to group undertakings	–	–	3,405	3,167
Corporation tax	34	592	–	–
Social security and other taxes	31	82	24	146
Other creditors	2,397	1,417	1,038	893
Accruals and deferred income	1,484	1,561	194	351
Proposed dividend	335	830	335	830
	<b>5,515</b>	<b>5,207</b>	<b>5,073</b>	<b>5,441</b>

### 17 Creditors – Amounts falling due after more than one year

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	€'000	€'000	€'000	€'000
Bank loans (note 18)	45,457	47,388	1,067	1,626

### 18 Borrowings

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	€'000	€'000	€'000	€'000
Falling due within one year				
Bank loans and overdrafts	1,234	725	77	54
Falling due after more than one year				
Bank and other loans				
– repayable between one and two years	1,440	2,881	–	81
– repayable between two and five years	5,264	4,966	376	523
– repayable other than by instalments in five years or more	31,490	31,853	691	981
– repayable by instalments in five years or more	7,263	7,688	–	41
	<b>45,457</b>	<b>47,388</b>	<b>1,067</b>	<b>1,626</b>
Total borrowings	<b>46,691</b>	<b>48,113</b>	<b>1,144</b>	<b>1,680</b>

Bank and other loans are secured by legal mortgages over the investment property and trading properties.

Amounts repayable after five years or more are due between five and twelve years from the balance sheet date.

The interest rates on these amounts include floating rates based on LIBOR and EURIBOR rates between 4.114% and 6.50% (with margins of between 0.95% and 2%) and rates fixed at 6.50%.

## 19 Financial instruments

Interest rate risk profile of financial liabilities	Weighted average period of financial liabilities 31 December 2002	Weighted average interest rate % 31 December 2002	31 December 2002	Weighted average period of financial liabilities 31 December 2001	Weighted average interest rate % 31 December 2001	31 December 2001
			€'000			€'000
The interest rate profile of the financial liabilities of the Group at 31 December 2002 was as follows:						
Fixed interest borrowings – Basingstoke	0.9 yrs	6.50%	768	1.9 yrs	6.50%	1,269
Floating rate borrowings – Other		4.13%	45,923		4.55%	46,844

The weighted average interest rate figures include the applicable margin paid on individual loans.

Floating rate borrowings bear interest based on LIBOR, EURIBOR or the average variable mortgage rate set by leading mortgage lenders.

Floating borrowings of €45.9 million (2001 – €46.8 million) were covered by interest rate cap and/or floor agreements, expiring between 2005 and 2009.

The maturity profile of these financial liabilities is given in Note 18.

	31 December 2002	31 December 2001
	€'000	€'000
The Group held the following financial assets as at 31 December 2002:		
Listed investments	2	2
Cash deposits	2,806	7,234
	<b>2,808</b>	<b>7,236</b>

### The fair values of financial assets and financial liabilities:

A valuation was performed by the Directors as at 31 December 2002 and 31 December 2001 to calculate the market value of the Group's debt instruments on a replacement basis taking into account the prevailing interest rates for the respective periods of the appropriate debt instruments. The valuations are as follows:

	Book value 31 December 2002	Fair value 31 December 2002	Book value 31 December 2001	Fair value 31 December 2001
	€'000	€'000	€'000	€'000
Borrowings	46,691	46,699	48,113	48,116
Interest rate derivatives	–	124	–	309
Non-hedging financial instruments	756	756	537	537
	<b>47,447</b>	<b>47,579</b>	<b>48,650</b>	<b>48,962</b>

The valuation indicated a fair value of €132,000 above the actual financial liabilities at 31 December 2002 (31 December 2001 – €312,000).

The functional currency of the Group's European operations is euro, and no foreign currency monetary assets and liabilities are held. The functional currency of the UK operations is sterling. The net euro monetary assets at 31 December 2002 in the UK are €18,376,000 (2001 – €16,256,000).

The fair value of interest rate derivatives amounts to a negative present value difference of €756,000 at 31 December 2002 (31 December 2001 – €537,000). €252,000 has been charged to the profit and loss account during the year, reflecting the movement in the fair value of the derivatives and including foreign exchange translation differences of €33,000.

Market values have been used to determine the fair value of interest rate derivatives. The fair values of all other items have been calculated by discounting the expected future cash flows at prevailing interest rates. If the interest rates current at 31 December 2002 were to prevail throughout the year to 31 December 2003, the cost to the Group for that year from the interest rate derivatives taken out at that date would be €163,000.

The exemption available under FRS13, "Derivatives and Other Financial Instruments: Disclosures", not to disclose short term debtors and creditors has been taken.

# NOTES TO THE ACCOUNTS

## CONTINUED

### 20 Deferred Taxation

	31 December 2002	31 December 2001 As restated
	€'000	€'000
The amount provided and the liability for deferred taxation was as follows:		
<b>Group</b>		
As at 1 January	219	92
Charge during the year	636	127
Decrease in tax rate	(34)	–
Foreign exchange differences	(5)	–
As at 31 December	816	219
	31 December 2002	31 December 2001 As restated
	€'000	€'000
The amount of deferred tax not provided in the accounts is as follows:		
Capital allowances in excess of depreciation	44	43
Losses not utilised	302	53
Short term timing differences	10	–
Capital losses not utilised	1,331	1,472
	1,687	1,568

Within the Group, there are capital losses amounting to €4,937,000 (2001 – €5,002,000).

### 21 Called up Share Capital

	31 December 2002	31 December 2001
<b>Authorised</b>		
9,953,805 Ordinary Shares of 40p each	€6,335,000	€6,335,000
<b>Allotted and fully paid</b>		
At 1 January and 31 December 2002 7,357,446 Ordinary Shares of 40p each	€4,682,572	€4,682,572

### 22 Reserves

(a) Group	Share Premium Account	Capital Redemption Reserve	Profit and Loss Account	Total
	€'000	€'000	€'000	€'000
At 1 January 2002 as previously stated	7,957	291	7,042	15,290
Prior year adjustment in respect of deferred tax	–	–	(127)	(127)
At 1 January 2002 as restated	7,957	291	6,915	15,163
Retained loss for the financial year	–	–	(600)	(600)
<b>At 31 December 2002</b>	<b>7,957</b>	<b>291</b>	<b>6,315</b>	<b>14,563</b>
The impact of the adoption of FRS19 "Deferred Taxation" for the year ended 31 December 2001 is to increase the deferred tax liability and reduce Shareholders' funds by €127,000. The taxation charge for the year ended 31 December 2002 has increased by €602,000 (2001 – €127,000) as a result.				
(b) Company	Share Premium Account	Capital Redemption Reserve	Profit and Loss Account	Total
	€'000	€'000	€'000	€'000
At 1 January 2002	7,957	291	4,068	12,316
Retained loss for the financial year	–	–	(1,627)	(1,627)
<b>At 31 December 2002</b>	<b>7,957</b>	<b>291</b>	<b>2,441</b>	<b>10,689</b>

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

## 23 Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flow	31 December 2002	31 December 2001 As restated
	€'000	€'000
Operating profit	3,157	9,639
Depreciation and amortisation charges	85	333
Loss on sale of tangible fixed assets	–	2
Impairment in value of investment property	139	1,163
Increase in stock	(3,720)	(25,644)
Decrease in debtors	638	9,319
Increase/(decrease) in creditors	637	(939)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>936</b>	<b>(6,127)</b>

(b) Analysis of net debt	At 1 January 2002	Cash Flow	Other non-cash movements	Exchange movements	At 31 December 2002
	€'000	€'000	€'000	€'000	€'000
Cash at bank and in hand	7,234	(4,288)	–	(140)	2,806
Overdraft	(12)	12	–	–	–
Debt due within one year	(713)	1,322	(1,843)	–	(1,234)
Debt due after one year	(47,388)	–	1,843	88	(45,457)
	<b>(40,879)</b>	<b>(2,954)</b>	<b>–</b>	<b>(52)</b>	<b>(43,885)</b>

## 24 Guarantees and financial commitments

- (a) The Company has provided guarantees in respect of a loan entered into in a joint arrangement. At 31 December 2002 the amount guaranteed and not accounted for by the Group amounted to €1,128,000 (2001 – €1,201,000). The Company has received a counter-indemnity from Stratford UK Properties LLC for this amount. The Company has also made a guarantee in respect of any interest shortfall on loans totalling €2,302,000 (2001 – €3,800,000). Details of the Company's litigation with Stratford UK Properties LLC are disclosed in note 27.

- (b) At 31 December 2002 the Group had annual commitments under operating leases in respect of land and buildings which expire:

	31 December 2002 €'000	31 December 2001 €'000
Over five years	94	96

- (c) At 31 December 2002 the Group had capital commitments in respect of contracted refurbishment works of €414,000 (2001 – €96,000).

## 25 Share Incentive Plan

The Company has established The International Real Estate PLC Share Incentive Plan (the Plan), whereby the Company may advance sums to the International Real Estate Employee Share Trust (the Trust) in order to subscribe for shares in the Company. Such shares are to be held for the purpose of the Plan.

The Trustees of the Trust in exercising their discretion may grant rights to acquire shares in the Company to selected employees. Rights which become vested will normally be exercisable after the end of three years if a three year performance target, determined by the Remuneration Committee on the date the award is made, is exceeded.

The initial market value of shares over which a long-term incentive award may be granted to an individual in any year cannot exceed the amount of their basic annual salary.

# NOTES TO THE ACCOUNTS

## CONTINUED

### 25 Share Incentive Plan (continued)

The maximum awards in aggregate which may be granted in any one year will be limited to 2% of the Company's issued ordinary share capital.

The number of shares which may be issued for the purposes of the Plan, when added to shares issued or over which options to subscribe for shares have been granted under any other relevant employee share scheme, may not exceed 3% of the issued ordinary share capital in any period of three years, subject to an overall limit of 5% in any period of ten years.

The details of the number of rights granted to Executive Directors during the year are given in the Directors' Remuneration Report on pages 14 to 16.

### 26 Related Party Transactions

Thesaurus S.A, a company in which a non-executive Director M Berges has an interest, currently has a lease within the IT Tower in Brussels. IT Tower B.V.B.A, a wholly owned subsidiary of the Company, has an agreement to sub-let part of this area from Thesaurus S.A as well as purchasing secretarial and office services. All agreements have been made on an arm's length basis.

### 27 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 Oaktree's 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 Oaktree's 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 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 now granted leave to appeal. On the basis of the legal advice it has 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 €430,000 (£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.

### 28 Conversion Rates

	2002	2001
Sterling/Euro annual average exchange rate (£ = €)	<b>1.5880</b>	1.6090
Sterling/Euro closing rate (£ = €)	<b>1.5350</b>	1.6237
1 sq.m. = 10.764 sq.ft. approximately		
1 sq.ft. = 0.093 sq.m. approximately		

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 99 Charterhouse Street, London EC1M 6NQ on 13 June 2003 at 12.00 p.m. to transact the following business:

## Ordinary Business

1. To receive and adopt the Report of the Directors, Directors' Remuneration Report and the audited Financial Statements for the year ended 31 December 2002.
2. To declare a dividend.
3. To re-elect John Lamb who retires by rotation, as a Director.
4. To re-elect Michael Bell who retires by rotation, as a Director.
5. To re-appoint Deloitte & Touche LLP auditors and to authorise the Directors to determine their remuneration.

On 1 June 2003, Deloitte & Touche will transfer their entire business to Deloitte & Touche LLP, a limited liability partnership formed pursuant to the Limited Liability Partnership Act 2000. The company will be giving its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 June 2003. Accordingly, although the accounts were signed in the name of Deloitte & Touche, a resolution for the re-appointment of Deloitte & Touche LLP is proposed.

## Special Business

To consider and, if thought fit, to pass the following as ordinary and special resolutions respectively:

## Ordinary Resolution

6. THAT the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ('the Act') in substitution for any existing authority to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to a maximum nominal amount of £1,038,543 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may prior to the expiry of such authority make an offer or agreement under which the relevant securities in pursuance of such an offer or agreement as if the authority conferred by this Resolution had not expired.

## Special Resolutions

7. THAT the Directors be and are hereby empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:
  - 7.1 the allotment of equity securities in connection with an offer for securities, open for acceptance for a period fixed by the Directors, by way of rights, open offer or otherwise to holders of Ordinary Shares and such other equity securities as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached to them (but subject to such exclusions or other arrangements necessary or expedient to deal with fractional entitlements that would otherwise arise or with the legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or any stock exchange in any territory or otherwise however); and
  - 7.2 any other allotment (otherwise than pursuant to paragraph 8.1 above) of equity securities up to the aggregate nominal value of £147,148;

and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, but so that the Directors shall be entitled to make, at any time prior to the expiry of the power hereby conferred, any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot securities in pursuance of such offer or agreement as if the powers hereby conferred had not expired.

# NOTICE OF ANNUAL GENERAL MEETING

## CONTINUED

8. THAT the Company is, pursuant to Section 166 of the Act, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 40p each in the capital of the Company ('ordinary shares') provided that:
- 8.1 the maximum number of ordinary shares hereby authorised to be purchased is 735,744 ordinary shares being 10% of the issued share capital at the date of the passing of the Resolution;
  - 8.2 the minimum price which may be paid for ordinary shares is 40p per ordinary share;
  - 8.3 the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the ordinary share is contracted to be purchased;
  - 8.4 the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract to purchase will be executed wholly or partly after the expiry of such authority, and may make the purchase of ordinary shares in pursuance of any such contract; and
  - 8.5 the authority hereby conferred shall expire on 13 June 2004.

34 St James's Street  
London SW1A 1HD

By Order of the Board  
Tom Shannon, Secretary  
29 April 2003

### NOTES:

A member who is entitled to be present and vote at the above Meeting may appoint one or more proxies to attend and vote on a poll on his/her behalf. Any proxy need not be a member of the Company. Forms of proxy (and the power of attorney or other authority, if any, upon which it is signed) must be deposited with the Company's registrars, Capita IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not less than 48 hours before the appointed time of the meeting. Completion of the form of proxy does not preclude the member from attending the meeting and voting thereat. If the appointer is a corporation (which includes a limited company) the form must be under its common seal or under the hand of its attorney or duly authorised officer.

The following documents are available for inspection during normal business hours at the Company's registered office on any weekday except Saturdays and Bank holidays, and at the place of meeting for a period of fifteen minutes.

- 1. The Register of Directors' Interests.
- 2. Copies of all contracts of service whereunder Directors of the Company are employed by the Company or any of its subsidiaries.
- 3. The Memorandum and Articles of Association of the Company.







International Real Estate

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