



International Real Estate

Annual Report 2003



CONTENTS

Directors and Advisers	2
Introduction	3
Chairman's Statement	4
Property Schedule	6
Report on Corporate Governance	7
Directors' Remuneration Report	9
Report of the Directors	12
Statement of Directors' Responsibilities	14
Independent Auditors' Report	15
Consolidated Profit and Loss Account	16
Consolidated Balance Sheet	17
Company Balance Sheet	18
Reconciliation of Movements in Shareholders' Funds	19
Consolidated Cash Flow Statement	20
Notes to the Accounts	21
Notice of Annual General Meeting	35

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 LLP
Chartered Accountants
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:

- substantial upgrading of property assets;
- 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; and
- increasing net asset value per share.

CHAIRMAN'S STATEMENT

Chairman's Statement

I am pleased to present the results for the 12-month period ending 31 December 2003. During the year the property values of our primary assets in Brussels performed well, but gross rental income was reduced due to the sale of Aartselaar and the refurbishment work in the IT Tower. Although we have made no new acquisitions, we are committed to developing our European commercial trading property activities by identifying properties that provide above average yields and opportunities for value enhancement.

Overview:

- Principal activity focused on trading properties in Belgium – the IT Tower and the QPT Tower in Brussels
- Efforts concentrated on improving letting potential of the IT Tower – the full impact is not expected to be realised until late 2004 or 2005
- Fully let, the IT Tower is expected to produce rents of €4.52m a year giving a gross yield of circa 9% on cost, including refurbishments
- The QPT Tower is fully let to high quality tenants with an average length of leases of around four years and is currently generating rents of €1.11m giving a gross yield of 11.7% on cost
- Net asset value (NAV) as reported at 31 December 2003 of €2.58 per share (2002 – €2.62 per share)
- Unrecognised valuation surplus on trading stock adds approximately €1.90 per share to the NAV before tax (2002 – €1.50 per share) or €1.23 net of tax at an assumed net average rate of 35% (2002 – €0.98)
- Adjusted NAV including unrecognised trading value before tax of €4.48 per share (2002 – €4.12 per share) or €3.81 net of taxes (2002 – €3.60)
- Dividend remains unchanged at 6p or €0.09 per share (2002 – 6p or €0.10 per share) for the year
- The Aartselaar sale in April added €0.45m to Shareholders' funds as well as generating a cash contribution of €5.6m for the Group

Financial Review

Results for the year ended 31 December 2003 show that turnover increased by €9.7m to €15.1m (2002 – €5.4m) mainly due to the sale of the Aartselaar property. The pre-tax profit for the year was €390,000 (2002 – €849,000) and the profit after taxation €400,000 (2002 – €97,000). The Company's net borrowings fell to €35.5m at 31 December 2003 compared with €43.9m at 31 December 2002. The decrease is mainly due to the sale of Aartselaar.

Property portfolio

During the year the Company has concentrated its efforts on enhancing the value of the IT Tower, a 22,943 square metre landmark office building in Brussels, prominently situated on Avenue Louise at the corner of Avenue de Mot. Considerable investment has been made to modernise the building.

The refurbishment programme resulted in a temporary decline in operating income as we have taken back floors to carry out improvements at a faster level than anticipated. However, the programme has also enabled us to market well equipped and laid out floors which appeal to higher quality tenants, willing to pay higher rents, for prime office accommodation. The exercise has resulted in the IT Tower increasing in value by €5.44m which had a positive impact on adjusted NAV of €0.74 before tax or €0.48 after assumed tax of 35% per share.

The strategy for the current year is to continue the refurbishment programme, although this will lead to lower operating profits for 2004 and 2005. Overall occupancy levels at present are 82% for IT Tower and 100% for QPT Tower.

The Company is looking into various opportunities for a renovating/restructuring programme for the QPT Tower, which is located at Quai aux Pierres de Taille, Brussels. The property is currently generating rents of €1.11m a year giving a gross yield of 11.7% on cost. The first phase of the programme up to planning permission being received, is expected to take between 12 and 18 months. The building is an excellent income generator providing a strong cash inflow. The average duration of the leases is circa four years which comfortably covers the first phase to achieve planning permission.

The challenge for the Company is to maximise the potential of the building, especially making use of adjacent land. Although the building lacks adequate off street parking, we are examining imaginative proposals for accommodating vehicles on the site.

As noted in the interim report, the effects of the slowdown in economic activity have been less of a problem for the Brussels property market compared to other European capitals. There has been upward pressure on rents in the Central Business District, which is forecast to continue. Top rents currently are at €275m²/year and asking rents for projects due for delivery in 2004/5 slightly above that level. We have considered a number of property acquisitions and continue to monitor the sector closely as we believe that there is potential for buildings offering top quality space. The investment market is excellent with yields at record levels of 5.75%-6.75% for AAA properties.

The UK portfolio consists of the Limited Partnership property in Basingstoke, in which the Group has a 25% interest. Note 26 explains the status of the limited partnership and the fundamental uncertainties surrounding it.

Corporate Issues

A full explanation of the ongoing litigation with our joint venture partners, Stratford UK Properties LLC ('Oaktree') and Mr Aubrey Glaser, the former Managing Director, is included in Note 25 to the accounts.

On the basis of legal advice received, the Company considers that it is unlikely to incur any material loss as a result of the litigation and therefore no provision has been made in the accounts. However, the matter will continue to be kept under review.

The Company has been granted leave to appeal to the House of Lords. The hearing is set for 10-11 May 2004.

International Accounting Standards (IAS)

The Company is currently considering the implications of reporting under IAS with effect from 1 January 2005.

Dividends

Your Board proposes to pay a final dividend of 3 pence per share (€0.04) on 16 April 2004 to shareholders on the register on 19 March 2004. An interim dividend of 3 pence (€0.05) was paid on 21 October 2003 making a total for the year of 6 pence per share (€0.09) unchanged from the previous year.

Prospects

The prospects for International Real Estate depend largely on the outcome of the Appeal to the House of Lords, resolution of the uncertainties relating to the Basingstoke Partnership and property acquisitions and disposals.

The Company is well placed to benefit from the firm underlying demand for prime office space in Brussels. As mentioned, the refurbishment programme will affect operating profits although this will have a long term benefit by improving the underlying quality of the company's assets. Overall net rental income is expected to be sufficient to cover financing costs and administrative expenses. We remain committed to finding properties that can produce strong yields and have a team in place that has a proven track record to deliver on this strategy.



Rolf L. Nordström, Chairman
25 February 2004

PROPERTY SCHEDULE

at 25 February 2004

Location	Type	Freehold or Leasehold	Lettable m ²	Occu- pancy	Ground Rent per annum
INTERNATIONAL REAL ESTATE PLC WHOLLY OWNED					
IT Tower Brussels, Belgium	Office	Leasehold to 2066	22,943	82%	€5,000
Quai aux Pierres de Taille Brussels, Belgium	Office	Freehold	11,695	100%	
Total, wholly owned properties:			34,638		
PARTNERSHIP PROPERTIES					
Criterion – Stratford (Basingstoke) Limited Basingstoke – Mobius House Viabes Industrial Estate, Basingstoke	Office	Leasehold to 2107	4,093	0%	18% of rent received
TOTAL, OWNED OR UNDER MANAGEMENT:			38,731		
SUMMARY:					
International Real Estate PLC wholly owned properties			34,638		
International Real Estate PLC share of Partnership Properties at 25%			1,023		
TOTAL, WHOLLY OWNED AND SHARE OF PARTNERSHIP:			35,661		



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 and compliance with provisions of the 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 at the Company's expense. 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 9.

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 31 March 2004. 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 12 and 13 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 14.

REPORT ON CORPORATE GOVERNANCE

CONTINUED

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;
- implementation of a 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;
- operation of 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 partnerships.

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 cash flow 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 25 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.

Revised Combined Code

The Company is implementing the additional requirements of the revised Combined Code which applies to the Company in the year ended 31 December 2004.

Statement of Compliance with the Combined Code

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

BY ORDER OF THE BOARD

Tom Shannon, Secretary
London, 25 February 2004

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 2003 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 described below.

The Company's policy on external directorships is that, provided there is no direct conflict of interest, and that the directors have sufficient time to devote to their duties for the Company, 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 2003 no bonuses were awarded to executive Directors (2002: €7,500).

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 2003 Total	Year ended 31 Dec 2002 Total
			€	€	€	€	€
Executive Directors' fees/salaries							
Rolf L Nordström	17 May 96	26 Jun 97	148,835	—	—	148,835	158,800
Daniel Akselson	01 Oct 01	19 Feb 02	211,600	—	—	211,600	216,903
Non-executive Directors' fees/salaries							
Sir Eric Parker	25 Mar 98	07 Nov 98	14,450	—	—	14,450	15,880
John Lamb	01 Sep 96	07 Nov 98	14,450	—	—	14,450	31,760
Michael Bell	09 May 94	07 Nov 98	14,450	—	—	14,450	15,880
Michel Berges	15 Feb 00	15 Mar 00	14,450	—	—	14,450	15,880
			418,235	—	—	418,235	455,103

Sir Eric Parker has a separate consultancy agreement with the Company payable at the rate of €21,675 (£15,000) per annum with effect from 1 January 2001.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Directors' interests

The beneficial interests of the Directors in office at 31 December 2003 in the issued share capital were as follows:

	Ordinary shares of 40p each		
	1 January 2003	31 December 2003	25 February 2004
Rolf L Nordström*	4,382,311	4,382,311	4,382,311
Daniel Akselson	15,000	15,000	15,000
Michael Bell	5,000	5,000	5,000
Michel Berges	—	—	—
John Lamb	125,000	125,000	125,000
Sir Eric Parker	7,500	7,500	7,500

*As at 31 December 2003 and 25 February 2004, 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 ("the Plan")

By Ordinary Resolution dated 26 February 1998 the Company established The International Real Estate 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 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 2003 against the performance, with dividends reinvested, of the FTSE All Share and FTSE Real Estate indices respectively.

Total Shareholders' Return



Summary of Share Option Rights

Director	At 1 Jan 2003	Granted	At 31 Dec 2003	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	11/4/2002	11/4/2010
Daniel Akselson	50,000		50,000	10/4/2005	10/4/2012
		30,000	30,000	29/5/2006	29/5/2013
Total	135,000	30,000	165,000		

The total outstanding share option rights of 165,000 represent 2.24% 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 2003 was 91.5 pence. The range during the year was 77.5 pence to 119.5 pence.

During the year no monies have been paid into the Trust. Further details of the plan are give in Note 24 on page 32.

Chairman of the Remuneration Committee
M J de H Bell

London, 25 February 2004

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 12(c) to the accounts.

Review of business and future developments

A summary of the results of the year's trading is given on page 16 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 21 October 2003 (year ended 31 December 2002 3.0 pence). The Directors recommended a final dividend for the year of 3.0 pence per share payable on 16 April 2004 making a total dividend of 6.0 pence per share for the year (year ended 31 December 2002: 6.0 pence in total).

Directors

The names of the current Directors appear on page 2.

In accordance with the Articles of Association, Sir Eric Parker and Michel Berges 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, MBA, aged 49, has been investing in and managing properties in the UK and Europe since the early 1980s, and has been Chairman of International Real Estate PLC since May 1996. He has also been Chairman of the biotech company, Tripep PLC (publ.), which is listed on the Stockholm Stock Exchange since September 2001 and Chairman of the international mining and exploration company, MinMet PLC, which is listed on the ESM market in Dublin and traded on the Dublin and London Stock Exchanges since March 2003.

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

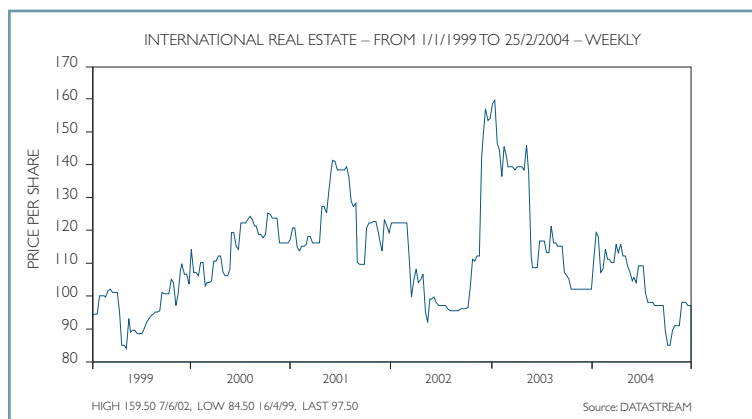
The Company was advised of the following disclosable beneficial interests of 3% or more in its issued ordinary share capital.

	31.12.2003	25.2.2004
Jermyn Business Limited	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.

Share price development



Purchase of own shares

The Company has shareholders' authority for the purchase of up to 10% of its own shares until 13 June 2004. 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 (£40.2m) is all at variable rates. The Group presently has in place interest rate hedges amounting to €39.2m.

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

A resolution will be proposed at the AGM for the appointment of BDO Stoy Hayward LLP to act as the Company's auditors going forward.

BY ORDER OF THE BOARD

Tom Shannon, Secretary
London, 25 February 2004

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

We have audited the financial statements of International Real Estate Plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the reconciliation of movements in shareholders' funds, the consolidated cash flow statement 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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures in note 26 relating to the Company's 25% interest in a limited partnership. There are fundamental uncertainties as to:

- the amount of any liability that the Company may have under guarantees it has given in respect of bank loans to the limited partnership; and
- the amount that the Company may be able to recover under the counter-indemnity from its limited partner, in the event that it has a liability under the guarantees or is unable to recover monies due from the partnership.

The financial statements do not take account of any adjustments that may be required following resolution of these uncertainties. Our opinion is not qualified in this respect.

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 2003 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 LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25 February 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Year ended 31 December 2003	Year ended 31 December 2002
		€'000	€'000
Turnover			
Net rental income	2	3,743	5,133
Property sales	2	11,314	285
		15,057	5,418
Cost of sales		(11,294)	(80)
Gross Profit		3,763	5,338
Exceptional charges – Litigation		(81)	(141)
Impairment in value of investment property		(91)	(139)
Other administrative expenses		(1,744)	(1,959)
Total administrative expenses		(1,916)	(2,239)
Other operating income		83	58
Operating Profit and Profit on Ordinary Activities before Interest and Taxation		1,930	3,157
Interest receivable and similar income	5	209	299
Interest payable and similar charges	6	(1,919)	(2,355)
Movement in fair value of derivatives		170	(252)
Total interest payable		(1,749)	(2,607)
Profit on Ordinary Activities before Taxation		390	849
Tax credit/(charge) on profit on ordinary activities	7	10	(752)
Profit on Ordinary Activities after Taxation and Profit for the Financial Year		400	97
Equity dividends	9	(631)	(697)
Retained Loss for the Financial Year	21	(231)	(600)
Basic and diluted earnings per share	8	€0.05	€0.01

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

There were no recognised gains or losses other than the profit for both the current and preceding years.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2003

	Notes	31 December 2003		31 December 2002	
		€'000	€'000	€'000	€'000
Fixed Assets					
Investment properties	10		848		1,017
Other tangible assets	11		10		37
Investments	12(a)		2		2
			860		1,056
Current Assets					
Stock – trading properties	13	56,169		65,746	
Debtors	14	1,438		1,426	
Cash at bank and in hand		4,718		2,806	
		62,325		69,978	
Current Liabilities					
Creditors: amounts falling due within one year					
– Borrowings		(1,993)		(1,234)	
– Other		(3,177)		(4,281)	
	15	(5,170)		(5,515)	
Net Current Assets			57,155		64,463
Total Assets Less Current Liabilities			58,015		65,519
Creditors: amounts falling due after more than one year					
– Borrowings	16	(38,211)		(45,457)	
Provisions for Liabilities and Charges					
Deferred taxation	19	(789)		(816)	
Net Assets			19,015		19,246
Capital and Reserves					
Called up share capital	20	4,683		4,683	
Share premium account	21(a)	7,957		7,957	
Capital redemption reserve	21(a)	291		291	
Profit and loss account	21(a)	6,084		6,315	
Equity Shareholders' Funds			19,015		19,246
Equity Shareholders' Funds per share	27	€2.58		€2.62	
Equity Shareholders' Funds per share including unrecognised trading value	27	€3.81		€3.60	

The financial statements were approved by the Board of Directors on 25 February 2004 and were signed on its behalf by:

Rolf L Nordström }
 Daniel Akselson } Directors

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2003

	Notes	31 December 2003		31 December 2002	
		€'000	€'000	€'000	€'000
Fixed Assets					
Investment properties	10		848		1,017
Other tangible assets	11		10		37
Investments	12(b)		576		576
			1,434		1,630
Current Assets					
Debtors	14	18,257		18,459	
Cash at bank and in hand		233		1,423	
		18,490		19,882	
Current Liabilities					
Creditors: amounts falling due within one year					
– Borrowings	15	(983)		(77)	
– Other		(2,860)		(4,996)	
		(3,843)		(5,073)	
Net Current Assets			14,647		14,809
Total Assets Less Current Liabilities			16,081		16,439
Creditors: amounts falling due after more than one year					
– Borrowings	16		–		(1,067)
Net Assets			16,081		15,372
Capital and Reserves					
Called up share capital	20		4,683		4,683
Share premium account	21(b)		7,957		7,957
Capital redemption reserve	21(b)		291		291
Profit and loss account	21(b)		3,150		2,441
Equity Shareholders' Funds			16,081		15,372

The financial statements were approved by the Board of Directors on 25 February 2004 and were signed on its behalf by:

Rolf L Nordström	} Directors
Daniel Akselson	

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Profit for the financial year	400	97
Dividends	(631)	(697)
Net reduction in Shareholders' Funds	(231)	(600)
Opening Shareholders' Funds	19,246	19,846
Closing Shareholders' Funds	19,015	19,246

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Year ended 31 December 2003		Year ended 31 December 2002	
		€'000	€'000	€'000	€'000
Net cash inflow from operating activities	22(a)		5,290		936
Returns on investments and servicing of finance					
Interest paid		(1,826)		(2,272)	
Interest received		83		299	
			(1,743)		(1,973)
Taxation paid			(33)		(707)
Capital expenditure and financial investment					
Purchase of other tangible fixed assets		–		(14)	
			–		(14)
Equity dividends paid			(770)		(1,196)
Cash inflow/(outflow) before financing			2,744		(2,954)
Financing					
Repayment of amounts borrowed		(904)		(1,322)	
			(904)		(1,322)
Increase/(decrease) in cash			1,840		(4,276)
Reconciliation of net cash flow to movement in net debt					
Increase/(decrease) in cash			1,840		(4,276)
Cash outflow from decrease in debt			904		1,322
Movement in net debt			2,744		(2,954)
Non cash movements	22(c)		5,493		–
Exchange movements			162		(52)
Net debt at 1 January			(43,885)		(40,879)
Net debt at 31 December	22(b)		(35,486)		(43,885)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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. The accounting policies have been applied consistently throughout the current and preceding year.

(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.

(c) Joint arrangement

The Company has entered into a joint arrangement for the acquisition of investment properties.

In accordance with FRS9 "Associates and joint ventures", the Group treats its investment in the partnership as a joint arrangement and accounts for its share of the individual items of income, expenditure, assets, liabilities and cash flows.

(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 arising 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.

NOTES TO THE ACCOUNTS

CONTINUED

I Accounting Policies (continued)

(h) Deferred taxation

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.

Where the derivative instrument no longer represents a hedge because either underlying exposure has been disposed of or the effectiveness of the hedge has been otherwise undermined, it is restated at fair value and any change in value is taken directly to the profit and loss account.

(j) Foreign exchange translation

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

	Year ended 31 December 2003			Year ended 31 December 2002		
	Turnover	Operating (Loss)/Profit	Net (Liabilities)/ Assets	Turnover	Operating (Loss)/Profit	Net Assets
United Kingdom	€'000	€'000	€'000	€'000	€'000	€'000
Investment	–	(288)	(245)	136	(136)	98
Trading	–	(1,405)	(387)	(26)	(1,519)	154
	–	(1,693)	(632)	110	(1,655)	252
Continental Europe						
Trading	15,057	3,623	19,647	5,308	4,812	18,994
	15,057	1,930	19,015	5,418	3,157	19,246

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

3 Operating Profit

Group	Year ended 31 December 2003	Year ended 31 December 2002
	€'000	€'000
This is stated after charging:		
Depreciation of tangible fixed assets and amortisation of investments	27	85
Operating lease rentals – land and buildings	85	94
Auditors' remuneration – group audit	91	102
– tax fees	77	160
– other	2	77

4 Employees

	Year ended 31 December 2003	Year ended 31 December 2002
	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	4
Other employees	2	2
	8	8
	€'000	€'000
(b) Wages and salaries	571	560
Social security costs	50	48
	621	608

(c) Details of Directors' remuneration are given in the Director's Remuneration Report on pages 9 to 11.

5 Interest receivable and similar income

	Year ended 31 December 2003	Year ended 31 December 2002
Interest receivable	72	299
Gain on foreign exchange	137	–
	209	299

6 Interest payable and similar charges

	Year ended 31 December 2003	Year ended 31 December 2002
	€'000	€'000
Bank loans and overdrafts	(1,919)	(2,268)
Loss on foreign exchange	–	(87)
	(1,919)	(2,355)

NOTES TO THE ACCOUNTS

CONTINUED

7 Tax on Profit on Ordinary Activities

	Year ended 31 December 2003	Year ended 31 December 2002
	€'000	€'000
The tax charge on the profit on ordinary activities for the year was as follows:		
UK corporation tax at 30.00% (2002 – 30.00%)	–	–
Adjustment in respect of prior year	(10)	(150)
Current tax charge	(10)	(150)
Deferred taxation: timing difference	20	(636)
Deferred taxation: decrease in tax rate	–	34
	10	(752)

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 2003	Year ended 31 December 2002
	€'000	€'000
Profit on ordinary activities before tax	390	849
Tax on profit on ordinary activities at standard rate	(117)	(255)
Expenses not deductible for tax purposes	(149)	(79)
Capital allowances in excess of depreciation	65	(2)
UK losses not recognised	(142)	(167)
Utilisation of tax losses brought forward	242	–
Differences between Overseas and UK tax rates	(31)	(73)
Overseas profits/(losses) not recognised	132	(60)
Decrease in deferred tax rates	–	34
Adjustment in respect of prior year	(10)	(150)
	(10)	(752)

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 2002 – 33.99%), the current Belgian tax rate.

8 Earnings per share

	Year ended 31 December 2003	Year ended 31 December 2002
Earnings per share are calculated as follows:		
Profit for the year	€400,306	€96,706
Weighted average number of shares in issue	7,357,446	7,357,446
Basic and diluted earnings per share	€0.05	€0.01

9 Equity dividends

	Year ended 31 December 2003	Year ended 31 December 2002
	€'000	€'000
Interim paid of €0.05 (3.0p) per share (31 December 2002 – €0.05 (3.0p))	318	354
Proposed final dividend of €0.04 (3.0p) per share (31 December 2002 – €0.05 (3.0p))	313	343
	631	697

10 Investment Properties

Group and Company	Long Leasehold €'000
Valuation	
At 1 January 2003	1,017
Foreign exchange translation difference	(78)
Impairment	(91)
At 31 December 2003	848

This property is held through an investment in a joint arrangement and the carrying value at 31 December 2003 represents the Company's share of the investment property (note 1(c)).

The property, with a total value of €3,392,000 (2002 - €4,068,000), was valued by FPD Savills, Chartered Surveyors (2002 - FPD Savills, Chartered Surveyors) in accordance with the requirements of the Royal Institution of Chartered Surveyors on 31 December 2003, on the basis of market value. The Group's share of this was €848,000 (2002 - €1,017,000).

The historical cost of the Company's interest in the investment property was €2,404,685 (2002 - €2,404,685).

11 Other Tangible Fixed Assets

Group and Company	Short Leasehold Improvements €'000	Fixtures, Fittings and Equipment €'000	Total €'000
Cost			
At 1 January 2003	173	427	600
Additions	–	–	–
At 31 December 2003	173	427	600
Depreciation			
At 1 January 2003	173	390	563
Charge for year	–	27	27
At 31 December 2003	173	417	590
Net book values			
At 31 December 2003	–	10	10
At 31 December 2002	–	37	37

NOTES TO THE ACCOUNTS

CONTINUED

12 Fixed Asset Investments

(a) Group	Other Investments	Listed Investments	Total
	€'000	€'000	€'000
Cost			
At 1 January 2003	799	2	801
At 31 December 2003	799	2	801
Amortisation/provision for impairment			
At 1 January 2003	799	–	799
Charge for the year	–	–	–
At 31 December 2003	799	–	799
Net book values			
At 31 December 2003	–	2	2
At 31 December 2002	–	2	2

(b) Company	Shares in Subsidiary Undertakings	Other Investments	Listed Investments	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2003	685	799	2	1,486
At 31 December 2003	685	799	2	1,486
Provision/amortisation				
At 1 January 2003	111	799	–	910
Charge for the year	–	–	–	–
At 31 December 2003	111	799	–	910
Net book values				
At 31 December 2003	574	–	2	576
At 31 December 2002	574	–	2	576

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 9 to 11 and in note 24.

- (c) The Company's principal operating subsidiaries at 31 December 2003 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 SW1A 1HD. The Company accounts for its share of the assets, liabilities and cash flows of the Partnership.

These financial statements include on a consolidated basis the results and financial position of the Group's 15% and 25% interest in the 'Criterion-Stratford' partnership. Accordingly advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993.

13 Trading Properties

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Properties held for resale	56,169	65,746	–	–

Included in the cost above is €731,000 (2002 – €731,000) of capitalised finance costs.

14 Debtors

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Amounts falling due within one year				
Trade debtors	887	711	–	24
Amounts owed by group undertakings	–	–	17,840	18,009
Other debtors	99	145	7	12
Prepayments and deferred expenditure	452	570	410	414
	1,438	1,426	18,257	18,459

15 Creditors – Amounts falling due within one year

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Bank loans and overdrafts (note 17)	1,993	1,234	983	77
Amounts owed to group undertakings	–	–	1,543	3,405
Corporation tax	11	34	–	–
Social security and other taxes	39	31	23	24
Other creditors	1,163	2,397	658	1,038
Accruals and deferred income	1,655	1,484	327	194
Proposed dividend	309	335	309	335
	5,170	5,515	3,843	5,073

16 Creditors – Amounts falling due after more than one year

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Bank loans (note 17)	38,211	45,457	–	1,067

NOTES TO THE ACCOUNTS

CONTINUED

17 Borrowings

	Group		Company	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002
	€'000	€'000	€'000	€'000
Falling due within one year				
Bank loans and overdrafts	1,993	1,234	983	77
Falling due after more than one year				
Bank and other loans				
– repayable between one and two years	1,172	1,440	–	–
– repayable between two and five years	3,636	5,264	–	376
– repayable other than by instalments in five years or more	30,799	31,490	–	691
– repayable by instalments in five years or more	2,604	7,263	–	–
	38,211	45,457	–	1,067
	40,204	46,691	983	1,144

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 3.103% and 6.40% (with margins of between 0.95% and 2%).

18 Financial instruments

Interest rate risk profile of financial liabilities	Weighted average period of financial liabilities	Weighted average interest rate %			Weighted average period of financial liabilities	Weighted average interest rate %	
	31 December 2003	31 December 2003	31 December 2003	31 December 2002	31 December 2002	31 December 2002	31 December 2002
			€'000				€'000
The interest rate profile of the financial liabilities of the Group at 31 December 2003 was as follows:							
Fixed interest borrowings – Basingstoke	–	–	–	0.9 yrs	6.50%	768	
Floating rate borrowings – Other		3.22%	40,204		4.13%	45,923	

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 €39.2 million (2002 – €45.9 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 17.

	31 December 2003	31 December 2002
	€'000	€'000
The Group held the following financial assets as at 31 December 2003:		
Listed investments	2	2
Cash deposits	4,718	2,806
	4,720	2,808

The fair values of financial assets and financial liabilities:

A valuation was performed by the Directors as at 31 December 2003 and 31 December 2002 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 2003	Fair value 31 December 2003	Book value 31 December 2002	Fair value 31 December 2002
Financial liabilities	€'000	€'000	€'000	€'000
Borrowings	40,204	40,204	46,691	46,699
Interest rate caps and collars	–	100	–	124
Non-hedging financial instruments	531	531	756	756
	40,735	40,835	47,447	47,579

The valuation indicated a fair value of €100,000 above the actual financial liabilities at 31 December 2003 (31 December 2002 – €312,000). The fair value of financial assets was equal to book value at the 31 December 2003 and 31 December 2002.

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 2003 in the UK are €17,571,000 (31 December 2002 – €18,376,000).

The fair value of non-hedging interest rate derivatives amounts to a negative present value difference of €531,000 at 31 December 2003 (31 December 2002 – €756,000). The movement of €225,000 has been written back to the profit and loss account during the year, reflecting the movement in the fair value of the derivatives of €170,000 and foreign exchange translation differences of €55,000.

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 2003 were to prevail throughout the year to 31 December 2004, the cost to the Group for that year from the interest rate derivatives taken out at that date would be €171,000. No material gains or losses arising in prior periods have been credited or charged to the profit and loss account in the current year.

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

19 Deferred Taxation

	31 December 2003	31 December 2002
	€'000	€'000
The amount provided and the liability for deferred taxation was as follows:		
Group		
As at 1 January	816	219
(Credit)/charge during the year	(21)	636
Decrease in tax rate	–	(34)
Foreign exchange differences	(6)	(5)
As at 31 December	789	816
	31 December 2003	31 December 2002
	€'000	€'000
The amount of deferred tax not provided in the accounts is as follows:		
Capital allowances in excess of depreciation	34	44
UK losses not recognised	209	302
Short term timing differences	–	10
Capital losses not utilised	1,186	1,331
	1,429	1,687

Within the Group, there are capital losses amounting to €4,399,000 (2002 – €4,937,000).

NOTES TO THE ACCOUNTS

CONTINUED

20 Called up Share Capital

	31 December 2003	31 December 2002
Authorised		
9,953,805 Ordinary Shares of 40p each	€6,335,000	€6,335,000
Allotted and fully paid		
At 1 January and 31 December 2003 7,357,446 Ordinary Shares of 40p each	€4,682,572	€4,682,572

21 Reserves

(a) Group	Share Premium Account	Investment Revaluation Reserve	Capital Redemption Reserve	Profit and Loss Account	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2003	7,957	—	291	6,315	14,563
Retained loss for the financial year	—	—	—	(231)	(231)
At 31 December 2003	7,957	—	291	6,084	14,332
(b) Company	Share Premium Account	Investment Revaluation Reserve	Capital Redemption Reserve	Profit and Loss Account	Total
	€'000	€'000	€'000	€'000	€'000
At 1 January 2003	7,957	—	291	2,441	10,689
Retained profit for the financial year	—	—	—	709	709
At 31 December 2003	7,957	—	291	3,150	11,398

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

22 Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

	31 December 2003	31 December 2002
	€'000	€'000
Operating profit	1,930	3,157
Depreciation and amortisation charges	27	85
Impairment in value of investment property	91	139
Decrease/(increase) in stock	4,084	(3,720)
(Increase)/decrease in debtors	(12)	638
(Decrease)/increase in creditors	(830)	637
Net cash inflow from operating activities	5,290	936

(b) Analysis of net debt

	At 1 January 2003	Cash Flow	Other non-cash movements	Exchange movements	At 31 December 2003
	€'000	€'000	€'000	€'000	€'000
Cash at bank and in hand	2,806	1,840	–	72	4,718
Debt due within one year	(1,234)	904	(1,670)	7	(1,993)
Debt due after one year	(45,457)	–	7,163	83	(38,211)
	(43,885)	2,744	5,493	162	(35,486)

- (c) As part of the consideration following the disposal of the Aartselaar trading property on 4 April 2003, €5,493,000 of debt was transferred to the purchaser. The decrease in trading properties for the year ended 31 December 2003, has been reduced by this amount in the reconciliation of operating profit to operating cash flows.

23 Guarantees and financial commitments

- (a) The Company has provided guarantees in respect of a loan entered into in a joint arrangement. At 31 December 2003 the amount guaranteed and not accounted for by the Group amounted to €1,040,000 (2002 – €1,128,000). 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 €1,910,000 (2002 – €2,302,000). Further details are disclosed in note 26.
- (b) At 31 December 2003 the Group had annual commitments under operating leases in respect of land and buildings which expire:

	31 December 2003	31 December 2002
	€'000	€'000
Over five years	85	94

- (c) At 31 December 2003 the Group had capital commitments in respect of contracted refurbishment works of €391,000 (2002 – €414,000).

NOTES TO THE ACCOUNTS

CONTINUED

24 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 its 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.

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 9 to 11.

25 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, at 31 December 2003, in certain circumstances, could cost the Company approximately €13.4 million, increasing annually at a rate of 25% compounded monthly.

The Company claims the Agreement is unenforceable and accordingly on 10 July 2001 the Company issued proceedings in the High Court for an order that the Agreement be set aside. On the Company's application for summary judgement Mr. Justice Hart found in favour of the Company and made a declaration that the agreement was unenforceable against it. The decision was reversed by the Court of Appeal, but the House of Lords has granted leave to appeal. The appeal is scheduled to be heard on 10 and 11 May 2004. 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 €405,000 (£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.

26 Basingstoke Partnership

Investment property comprises the Company's 25% share of the investment in Mobius House property, Basingstoke. This property, which is unlet, was valued at £2.4 million (€3.4 million) by FPD Savills, Chartered Surveyors, (2002 - FPD Savills) in accordance with the requirements of the Royal Institution of Chartered Surveyors on 31 December 2003, on the basis of market value. The Company's 25% share amounts to €848,000 at 31 December 2003.

The property is owned by a limited partnership whose partners are the Company and Stratford UK Properties LLC ("Oaktree"). The Company is in litigation with Oaktree, details of which are set out in note 25.

The partnership is financed as follows:

1. A senior loan of £1,800,000 (€2,547,000) which is non recourse to the Company and in respect of which the Company has given a guarantee on interest shortfall.
2. A junior loan of £980,000 (€1,387,000) in respect of which the Company has given a guarantee of principal and interest shortfall.

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

The Group has proportionally consolidated its 25% share of the partnership's property, loans and other assets and liabilities. No provision has been included for any of the guarantees and counter-indemnities at 31 December 2003. At that date interest payments were up to date although the Company had provided funding of £59,000 (€83,000) on behalf of its partners to meet interest payments. This amount is included as a debtor due from the partnership in the group balance sheet at 31 December 2003.

In August 2003 notice was served by the senior lender that its non-recourse loan was in default and repayment was demanded. As a consequence of this, the junior lender's loan also became in default.

If the property is sold at its 31 December 2003 valuation, the partnership would be able to repay its senior loan in full, but there would be a deficit on the junior loan of approximately £383,000 (€542,000) and the Company has provided for its share (25%) of this. The directors believe that, in such circumstances, the limited partners (Oaktree and the Company) would provide sufficient additional funding to enable the partnership to repay the junior loan in full. However, given that this is not a legal obligation of the partners and in the context of the ongoing litigation between Oaktree and the Company, there is uncertainty as to whether sufficient funding will be provided. Accordingly there are fundamental uncertainties as to:

- the amount of any liability that the Company may have under the interest and principal guarantees it has given in respect of bank loans to the limited partnership; and
- the amount that the Company may be able to recover under its counter indemnity from its limited partner, in the event that it has a liability under the guarantees or is unable to recover the monies due from the partnership.

The financial statements do not reflect any adjustments that would be required if the Company has to make payments under the guarantees, or if it is unable to recover any such payments under the counter-indemnity from Oaktree.

The directors estimate that the potential loss to the Company arising from these uncertainties is approximately £849,000 (€1,201,000).

NOTES TO THE ACCOUNTS

CONTINUED

27 Adjusted Net Asset Value ("NAV")

	2003	2003	2002	2002
	€'000	€ per share	€'000	€ per share
Equity Shareholders funds – NAV	19,015	2.58	19,246	2.62
Unrecognised trading value	13,883	1.90	11,006	1.50
Gross NAV including unrecognised trading value before tax	32,898	4.48	30,252	4.12
Estimated tax on unrecognised trading value at 35%	(4,859)	(0.67)	(3,852)	(0.52)
NAV including trading value after tax	28,039	3.81	26,400	3.60

28 Conversion Rates

	2003	2002
Sterling/Euro annual average exchange rate (£ = €)	1.4450	1.5880
Sterling/Euro closing rate (£ = €)	1.4150	1.5350
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 31 March 2004 at 1.00 p.m. to transact the following business:

Ordinary Business

1. To receive and adopt the Report of the Directors, the Directors' Remuneration Report and the audited Financial Statements for the year ended 31 December 2003.
2. To declare a dividend.
3. To re-elect Sir Eric Parker who retires by rotation, as a Director.
4. To re-elect Michel Berges who retires by rotation, as a Director.
5. Special notice having been given, to propose the appointment of BDO Stoy Hayward LLP to act as the Company's auditors going forward and to authorise the Directors to determine their remuneration.

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 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 hereby empowered, pursuant to Section 95 of the Act, to allot 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 31 March 2005.

34 St James's Street
London SW1A 1HD

By Order of the Board
Tom Shannon, Secretary
25 February 2004

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, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU 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' Interest.
- 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.



34 St James's Street
London SW1A 1HD

Registered in England and Wales
No 2101254