International Real Estate

Annual Report 2005

CONTENTS

DIRECTORS AND ADVISERS

Directors	Rolf L. Nordström *Chairman*
	Daniel Akselson *Chief Executive Officer*
	John S. Lamb *Senior Independent Non-Executive*
	Michel Berges *Independent Non-Executive*
	Sir Eric Parker *Independent Non-Executive*
Secretary	Tom Shannon
Registered Office	22 Grafton Street, London W1S 4EX
Registration Number	2101254 – Registered in England and Wales
Stockbrokers	KBC Peel Hunt Limited 111 Old Broad Street London EC2N 1PH
Auditors	BDO Stoy Hayward LLP Chartered Accountants Emerald House, East Street, Epsom Surrey KT17 1HS
Solicitors	Class Law 77 South Audley Street London W1K 1JG
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

CHAIRMAN'S STATEMENT

This has been a good year for the Group, so it gives me great pleasure to report on the progress made in generating value through the identification of property investment opportunities offering both strong yields and potential for capital growth. Importantly the Group has settled its litigation with Oaktree Capital Management LLC and Aubrey Glaser out of court with no negative impact on the result for the year, enabling us to concentrate on developing our portfolio and increasing deal flow to generate further value for shareholders.

In recent years the Group has focused on the Brussels property market where it maintains a presence but as investors will have realised, International Real Estate has shifted its focus to the German property market. Here the Board believes, there is great potential for the Group to utilise its experience and flexibility to locate, process and execute property transactions that have significant upside potential.

During the period, six major transactions were completed in Germany – four transactions in Berlin, one in Dresden, and one in Düren. We have opened an office in our property on Uhlandstraße 175 in Berlin, as the Board felt that the volume of transactions being evaluated and projects undertaken warranted a constant presence in Germany.

Management is constantly evaluating new projects that fit International Real Estate's investment criteria and these will be reported to shareholders as required. With its growth prospects and the current investment climate, the Board concluded that it would be more appropriate for the Company's shares to be admitted to trading on the AIM market of the London Stock Exchange plc, and the transfer from the Official List of the UK Listing Authority was completed on 18 April 2005.

Germany – 2005

In June 2005, the Group acquired 12,996m^2 of apartments in the town of Düren and 10,739m^2 on Landsberger Allee in Berlin, as well as a 6,042m^2 mixed use property in Uhlandstraße, also in Berlin. Refurbishment programmes have commenced on the properties, which are progressing well and the Group is already beginning to see positive effects with increased occupancy rates and yields.

In August 2005, the Group acquired 50 per cent of a 8,073m^2 freehold property in Dresden. The building consists of a care centre, retail units and apartments. Since the acquisition, work has been undertaken to improve the cost base and tenant mix which is starting to improve the yield.

In September 2005, the Group acquired 130 apartments and two retail units on Holtzmarktstraße in Berlin amounting to 8,025m^2; the units are contained within three tower blocks, the balance of which have been sold off to the existing tenants. We have subsequently commenced a refurbishment programme which has resulted in higher rents being achieved.

In November 2005, the Group acquired 90 per cent of a property company owning seven properties around Bersarinplatz, in the heart of Friedrichshain in Berlin. The properties consist of 362 apartments amounting to 24,182m^2 and 21 retail units of 3,746m^2, a total of 27,928m^2. A refurbishment programme has been initiated improving the façades, insulating the roofs and generally upgrading entrance lobbies and lifts.

Germany – 2006

In 2006, the Group has continued to be active in the German property market, purchasing various properties, predominantly through public auctions and primarily located in Berlin, Leipzig and Magdeburg. In addition, the Group acquired 70 per cent of a company which owns a mixed use commercial property in Hamm. In total these acquisitions amounted to 32,687m^2.

In April, the Group acquired two properties in Magdeburg. The first, Südstadthöfe, is located in the southern part of the city which consists of 154 apartments, 8,530m^2 fully refurbished and 3,544m^2 in need of refurbishment. The second, a 2,310m^2 refurbished property on Arndtstraße/Lessingstraße, is located in the central part of the city and consists of 26 apartments and a restaurant.

In May, the Group acquired Friedrichstraße 56, a 2,230m^2 property consisting of 30 apartments and two retail units together with office space. The property is situated in Berlin Mitte between the former "Checkpoint Charlie" and "Gendarmenmarkt", occupying a first class location.

CHAIRMAN'S STATEMENT

CONTINUED

Belgium

Although we have shifted focus to Germany, we still see an opportunity to generate value in Brussels where the market remains buoyant. This is highlighted by the sale of the QPT Tower in November for €12.8 million, yielding a Group pre-tax profit after provision for various commitments of €2.5 million.

The Group expects to receive the building permit during the third quarter of 2006, for its residential development of 29 apartments together with underground parking spaces, on the 748m^2 development site on Rue du Gouvernement Provisoire close to the Royal Palace. The gross area to be constructed is circa 5,166m^2 with a net sellable area of circa 3,374m^2 of apartments. Construction work is expected to start in the fourth quarter of 2006 with the development expected to be completed in 2007.

Since the leasehold interest in the 22,778m^2 IT Tower property was transferred in August 2004 for €71.2 million, the Group has been working on the completion of the renovation programme as well as the letting of this landmark office tower, in accordance with the transfer agreement. As previously reported, the Group has the ability to achieve an upward adjustment to the transfer price, depending on the outcome of the letting process over the three years following the transfer, up to a maximum of €2.2 million. Any such adjustment will be receivable at the end of the three-year period in August 2007.

Litigation

The longstanding legal dispute with Oaktree Capital Management LLC was amicably settled out of court, as announced on 20 January 2006 and the litigation with Aubrey Glaser has been subsequently settled out of court. This is good news as it not only frees the Group from a major litigation risk but it also allows the Board to focus on developing the portfolio and sourcing new opportunities.

Financial Review

Although not yet required to, the Directors have chosen to adopt International Financial Reporting Standards in presenting the Group and Company financial statements for the year ended 31 December 2005. This has resulted in a number of presentational and disclosure changes but has had no impact on the measurement of the results previously reported under UK GAAP. Further details are given in notes 1 and 29 to the financial statements.

Results for the year ended 31 December 2005 show turnover of €16.2 million (2004 – €74.6 million), pre-tax profit of €4.8 million (2004 – €6.2 million) and profit after taxation of €5.1 million (2004 – €1.7 million).

The Group had a cash position as at 31 December 2005 of €17.1 million compared to €34.3 million at 31 December 2004.

Dividend

Your Board proposes to pay a final dividend of 4 pence per share (€0.06) on 28 July 2006 to shareholders on the register on 30 June 2006. An interim dividend of 3 pence (€0.04) was paid on 11 November 2005, making a total for the year of 7 pence (€0.10), an increase of 1 pence from the previous year.

Outlook

The Board is encouraged as to the potential of your Company. International Real Estate has re-aligned the focus of its activity, centering on the German market where the Board believes the right property investment climate exists. With our new focus the Group has a strong foundation from which to grow its investment activity and property portfolio.

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

Rolf L. Nordström, Chairman
London, 15 June 2006

REPORT ON CORPORATE GOVERNANCE

As a company listed on the Alternative Investment Market (AIM), the Company is not required to give a statement of compliance with the Combined Code. However, the Directors recognise the importance of sound corporate governance and internal control. The following report summarises the procedures in place throughout the year.

Company Organisation

The Board comprises two Executive Directors including an Executive Chairman, and three 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 Audit Committee reviews and monitors the independence and objectivity of the independent external auditors, the effectiveness of the audit process and the supply of any non-audit services. 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 Committee met twice during the year with all Directors in attendance.

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. There were no nominations during the year and therefore the Committee was not required to meet.

The Remuneration Committee

The Remuneration Committee comprises all non-Executive Directors with John Lamb holding the position of Chairman. The Committee met once during the year with all non-Executive Directors in attendance.

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 John Lamb respectively, will be available to answer any shareholder questions.

The next Annual General Meeting will take place on 10 July 2006. Details of the business to be considered are contained in the Notice of Meeting, which accompanies this Report.

REPORT ON CORPORATE GOVERNANCE

CONTINUED

Financial Reporting
A review of the Group's significant property activities during the year is included in the Chairman's Statement on pages 3 and 4. The Board uses this, together with the Report of the Directors on pages 7 and 8 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 9.

Internal Control
The Directors acknowledge their responsibility for the Group's system of internal control. 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.

Given the current size of the Group, the Directors consider that an internal audit function would not be appropriate, however, this matter is kept under review.

Going Concern
After reviewing detailed cash flow projections, taking into account resources and borrowing facilities, making such further enquiries as they consider appropriate, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By Order of the Board

Tom Shannon, Secretary
London, 15 June 2006

REPORT OF THE DIRECTORS

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2005.

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 16 to the accounts.

Review of Business and Future Developments
A summary of the results of the year's trading is given on page 12 and a review of the activities of the Group and of future developments is contained in the Chairman's Statement.

Dividends
The Directors recommend a final dividend for the year of 4.0 pence (€0.06) per ordinary share to be paid on 28 July 2006 to ordinary shareholders on the register on 30 June 2006 which, together with the interim dividend of 3.0 pence (€0.04) paid on 11 November 2005 makes a total of 7.0 pence (€0.10) per share for the year (2004 – 6.0 pence) (€0.08).

Directors
The names of the current Directors appear on page 2. All Directors served throughout the year.

Mr John Lamb and Sir Eric Parker retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

At the balance sheet date 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 51, 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 is also Chairman of the biotech company, Tripep Plc (publ.), which is listed on the Stockholm Stock Exchange, since September 2001. He was Chairman of the international mining and exploration company, MinMet Plc, which is listed on AIM in London and traded on the Dublin and London Stock Exchanges, from March 2003 until June 2005.

Daniel Akselson, aged 44, has been involved in property investment in Europe since the late 1980s.

Michel Berges is an experienced banker, Director and Chairman of several industrial and service companies and 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 and since 2006 the non-Executive Chairman of Summit Germany Limited. 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.

Directors' Interests
The Directors who held office at 31 December 2005 had the following interests in the issued share capital:

	Ordinary shares of 40p each	
	1 January 2005	31 December 2005
Rolf L. Nordström	4,382,311	5,237,379
Daniel Akselson	15,000	65,000
Michel Berges	–	–
John Lamb	125,000	125,000
Sir Eric Parker	7,500	7,500

Directors' Share Options

Summary of share option rights

Director	At 1 Jan 2005	Exercised	Waived	At 31 Dec 2005	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
	30,000	–	5,000	25,000	29/5/2006	29/5/2013
Total	**165,000**	**50,000**	**90,000**	**25,000**		

No share options were granted, exercised or waived during the year ended 31 December 2004.

Upon the exercise of any right to share options, a total of £1 is payable to the trustees. Gains of £65,000 were realised by Directors on the exercise of share options during the year.

The market price of the shares at 31 December 2005 was 160 pence. The range during the year was 97 pence to 160 pence.

Substantial Shareholdings

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

	15 June 2006
Jermyn Business Ltd.	76.12%

Jermyn Business Ltd. is a company indirectly beneficially controlled by the family of Rolf L. Nordström.

The Directors are not aware of any other disclosable interest in the company's shares of 3% or more.

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. There was no use of derivatives during the year or at the balance sheet date. Interest on existing debt is all at fixed rates. Further details regarding the use of financial instruments and their associated risks are given in notes 18, 19 and 20.

Supplier Payment Policy

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

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

At the end of the current and prior year the Company had no trade creditors.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Tom Shannon, Secretary
London, 15 June 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The Directors have chosen to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

PROPERTY PORTFOLIO

AT 15 JUNE 2006

	Lettable Area m²	Tenure	Ownership %
Miesheimer Weg 1-3, Duren	12,996	Ground lease until 2050	100
Kästner Passage, Dresden	8,073	Freehold	50
Uhlandstraße 175, Berlin	6,042	Freehold	100
Landsberger Allee 88-92, 96-102, Berlin	10,739	Freehold	100
Holzmarktstraße 69, 73, 75, Berlin	8,025	Freehold	100
Bersarinplatz, Berlin	27,928	Freehold	90
Landsberger Allee 390-392, Berlin	6,897	Freehold	100
Lange Straße 27, Berlin	0*	Freehold	100
Friedrichstraße 56, Berlin	2,230	Freehold	100
Tschaikowskistraße 13, Berlin	2,030	Freehold	100
Poststraße 4, Hamm	15,295	Freehold	70
Pfaffendorfer Straße 23, Leipzig	889	Freehold	100
Delitzscher Straße 120, Leipzig	606	Freehold	100
Delitzscher Straße 124, Leipzig	901	Freehold	100
Lützner Straße 116, Leipzig	621	Freehold	100
Lützner Straße 118, Leipzig	1,383	Freehold	100
Südstadthöfe, Magdeburg	12,074	Freehold	100
Liebigstraße 10, Magdeburg	1,240	Freehold	100
Arndtstraße 17, Magdeburg	2,310	Freehold	100
Breiter Weg 224, Magdeburg	1,930	Freehold	100
Niedergaße 46, Stollberg	270	Freehold	100
Thomas-Müntzer-Str. 10, Görlitz	625	Freehold	100
Rue du Gouvernement Provisoire, Brussels	0*	Freehold	100
Total	**123,104**		

*Pieces of land
Lange Straße 27– 410m²
Rue du Gouvernement Provisoire 748m²

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INTERNATIONAL REAL ESTATE PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of International Real Estate Plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Recognised Income and Expense, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act. We also report to you 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Directors' Report and the Report on Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Epsom, 15 June 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**Year ended 31 December 2005**	Year ended 31 December 2004
		€'000	€'000
Continuing Operations			
Revenue	3	**16,166**	74,567
Cost of Sales		**(10,073)**	(68,331)
Gross Profit		**6,093**	6,236
Other operating income	3	**2,188**	–
Administration expenses		**(2,309)**	(2,299)
Other operating expenses		**(148)**	(448)
Operating Profit		**5,824**	3,489
Finance income	7	**618**	495
Other gains and losses	8	**–**	3,692
Finance costs	9	**(1,610)**	(1,525)
Profit Before Tax		**4,832**	6,151
Tax credit/(charge)	10	**277**	(4,465)
Profit for the Year	25	**5,109**	1,686
Attributable to:			
Equity holders of the Parent		**5,109**	1,686
Minority interest		**–**	–
Earnings per Share			
Basic	12	**€0.74**	€0.23
Diluted	12	**€0.74**	€0.23

CONSOLIDATED AND COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2005

There is no difference between the profit for the periods shown and the total recognised income and expense for the respective periods. Reconciliations of movements in total equity are given in note 25 to the financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005

	Notes	**31 December 2005**	31 December 2004
		€'000	€'000
Non-Current Assets			
Investment properties	13	**51,734**	–
Available for sale investments	14	**2**	2
		51,736	2
Current Assets			
Inventories	15	**1,962**	12,732
Trade and other receivables	18	**2,997**	1,104
Cash and cash equivalents		**17,115**	34,332
		22,074	48,168
Total Assets		**73,810**	48,170
Current Liabilities			
Other payables		**(4,318)**	(2,809)
Current tax liabilities		**–**	(83)
Bank loans		**(21)**	(240)
Provisions		**(4,146)**	(7,800)
	22	**(8,485)**	(10,932)
Non-Current Liabilities			
Bank loans	20	**(34,136)**	(6,826)
Deferred tax liabilities	21	**(326)**	(612)
Long-term provisions	23	**(6,000)**	(10,000)
Finance leases	27	**(563)**	–
		(41,025)	(17,438)
Total Liabilities		**(49,510)**	(28,370)
Net Assets		**24,300**	19,800
Equity			
Share capital	24	**4,408**	4,408
Share premium account	25	**7,957**	7,957
Capital redemption reserve	25	**566**	566
Retained earnings	25	**11,369**	6,869
Equity Attributable to Equity Holders of the Parent		**24,300**	19,800
Minority interest		**–**	–
Total Equity	25	**24,300**	19,800

The financial statements were approved by the Board of Directors and authorised for issue on 15 June 2006. They were signed on its behalf by:

Rolf L. Nordström
Daniel Akselson
} Directors

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2005

	Notes	**31 December 2005**	31 December 2004
		€'000	€'000
Non-Current Assets			
Investments in subsidiaries	16	**546**	546
		546	546
Current Assets			
Trade and other receivables	18	**14,002**	16,059
Cash and cash equivalents		**689**	337
		14,691	16,396
Total Assets		**15,237**	16,942
Current Liabilities	22	**(1,321)**	(3,202)
Total Liabilities		**(1,321)**	(3,202)
Net Assets		**13,916**	13,740
Equity			
Share capital	24	**4,408**	4,408
Share premium account	25	**7,957**	7,957
Capital redemption reserve	25	**566**	566
Retained earnings	25	**985**	809
Equity Attributable to Equity Holders of the Parent		**13,916**	13,740
Total Equity	25	**13,916**	13,740

The financial statements were approved by the Board of Directors and authorised for issue on 15 June 2006. They were signed on its behalf by:

Rolf L. Nordström
Daniel Akselson
} Directors

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**Year ended 31 December 2005**		Year ended 31 December 2004	
		€'000	**€'000**	€'000	€'000
Net Cash Inflow from Operating Activities	26(a)		**6,984**		65,555
Investing Activities					
Interest received		**372**		333	
Acquisition of investment properties		**(48,946)**		–	
Sale of subsidiary undertaking		**–**		(873)	
Net Cash Used in Investing Activities			**(48,574)**		(540)
Financing Activities					
Dividends paid		**(609)**		(616)	
Interest paid		**(2,109)**		(1,348)	
Repayments of borrowings		**(7,066)**		(32,790)	
New bank loans raised		**34,157**		–	
Purchase of treasury shares		**–**		(598)	
Net Cash Generated by/(Used in) Financing Activities			**24,373**		(35,352)
Net (Decrease)/Increase in Cash and Cash Equivalents			**(17,217)**		29,663
Cash and Cash Equivalents at Beginning of Year			**34,332**		4,718
Effect of foreign exchange rate changes			**–**		(49)
Cash and Cash Equivalents at End of Year			**17,115**		34,332

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**Year ended 31 December 2005**		Year ended 31 December 2004	
		€'000	**€'000**	€'000	€'000
Net Cash Inflow from Operating Activities	26(b)		**168**		2,249
Investing Activities					
Interest received		**1,084**		1,198	
Net Cash Generated by Investing Activities			**1,084**		1,198
Financing Activities					
Interest paid		**(291)**		(1,146)	
Dividends paid		**(609)**		(616)	
Repayments of borrowings		**–**		(983)	
Purchase of treasury shares		**–**		(598)	
Net Cash Used in Financing Activities			**(900)**		(3,343)
Net (Decrease)/Increase in Cash and Cash Equivalents			**352**		104
Cash and Cash Equivalents at Beginning of Year			**337**		233
Cash and Cash Equivalents at End of Year			**689**		337

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting Policies

(a) Basis of accounting

The financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS's) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS's are given in note 29. The financial statements of the Group have also been prepared in accordance with IFRS's adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements of the Group and Company have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments. The principal accounting policies of the Group and Company are set out below.

These financial statements are presented in euros because that is the currency of the primary economic environment in which the Group operates.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the original combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets that are classified as held for resale in accordance with IFRS 5 'Non Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

1 Accounting Policies (continued)

(d) Joint ventures

A subsidiary undertaking has entered into an arrangement whereby it has a 50% interest in an investment property.

In accordance with IAS 31 'Interests in Joint Ventures', the Group treats its investment in the property as a jointly controlled asset and accounts for its share of the individual items of income, expenditure, assets, liabilities and cash flows.

(e) Revenue recognition

Revenue comprises rental income and income received from the sale of properties held as inventory net of VAT and other sales related taxes.

Rental income is recognised when due under the terms of the lease. Revenue from sale of properties is recognised in the period within which there is an unconditional exchange of contracts.

Interest income is accrued on a time basis, by reference to the balance on deposit and the interest rate applicable.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Separate regard is given to the land and building elements of leases, where relevant.

The Group as lessor

All arrangements in the current and prior year have been classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are recognised on a straight-line basis over the term of the relevant lease.

(g) Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates. For the purpose of the consolidated statements, the results and financial position of each Group Company are expressed in euros, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's UK operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period where it approximates to the actual rate. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1 Accounting Policies (continued)

(h) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(i) Retirement benefit costs

Payments to the personal pension schemes of certain employees and Directors are charged as an expense as they fall due.

(j) Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss as part of other operating income for the period in which they arise.

Where an investment property is held under a headlease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of the minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the Balance Sheet as a finance lease obligation.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes acquisition expenses and refurbishment expenditure in respect of major works and attributable interest and overheads.

1 Accounting Policies (continued)

(m) Financial instruments

Financial assets and financial liabilities are recognised on the Group and Company balance sheet when the Group or Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Investments

Investments classified as available-for-sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Impairment losses recognised in profit or loss are not subsequently reversed through profit or loss.

An impairment loss is recognised in the Income Statement where there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks in changes in foreign currency exchange rates and interest rates.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives. Derivative instruments utilised by the Group include, from time to time, 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.

Changes in fair value of derivative financial instruments are recognised in the income statement as they arise. There was no use of derivatives during the year or at the balance sheet date.

(n) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the the balance sheet date, and are discounted to present value where the effect is material.

2 Critical Accounting Judgements and Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 1, management has made judgements in relation to provisions which have a significant effect on the amounts recognised in the financial statements. Further details are given in note 23.

3 Revenue

An analysis of the Group's revenue is as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Investment property rental income	**2,368**	–
Trading property rental income	**998**	2,466
Sale of property	**12,800**	72,101
	16,166	74,567
Other operating income	**2,188**	–
Investment income	**618**	495
	18,972	75,062

Other operating income represents the increase in fair value of investment properties recognised during the period. Further details are given in note 13.

4 Business and Geographical Segments

For management purposes, the Group is currently organised into two operating divisions – Investment Properties and Trading Properties. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Investment Properties Year ended 31 December 2005	**Trading Properties Year ended 31 December 2005**	**Consolidated Year ended 31 December 2005**	Investment Properties Year ended 31 December 2004	Trading Properties Year ended 31 December 2004	Consolidated Year ended 31 December 2004
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
Revenue						
United Kingdom	**–**	**–**	**–**	921	–	921
Continental Europe	**2,577**	**13,589**	**16,166**	–	73,646	73,646
Total revenue	**2,577**	**13,589**	**16,166**	921	73,646	74,567
Segment result	**(1,422)**	**7,515**	**6,093**	–	6,236	6,236
Administration expenses			**(2,309)**			(2,299)
Other operating expenses			**(148)**			(448)
Other operating income	**2,188**		**2,188**			–
Operating profit			**5,824**			3,489
Finance income			**618**			495
Other gains and losses			**–**			3,692
Finance costs			**(1,610)**			(1,525)
Profit before tax			**4,832**			6,151
Tax credit/(charge)			**277**			(4,465)
Profit for the year from continuing operations			**5,109**			1,686

4 Business and Geographical Segments (continued)

	Investment Properties Year ended 31 December 2005	**Trading Properties Year ended 31 December 2005**	**Consolidated Year ended 31 December 2005**	Investment Properties Year ended 31 December 2004	Trading Properties Year ended 31 December 2004	Consolidated Year ended 31 December 2004
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
Balance Sheet						
Assets						
Segment assets	**71,848**	**1,962**	**73,810**	–	48,170	48,170
Liabilities						
Segment liabilities	**(49,813)**	**–**	**(49,813)**	–	(28,389)	(28,389)

Geographical segments

The Group's operations are located in Belgium and Germany. All investment properties are located in Germany and all trading properties are located in Belgium.

The following table provides and analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales Revenue by Geographical Market	
	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Belgium	**13,589**	74,567
Germany	**2,577**	–
	16,166	74,567

5 Profit for the Year

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Profit for the year has been arrived at after charging		
Net foreign exchange (gains)/losses	**(283)**	130
Operating lease rentals	**90**	87
Depreciation	**–**	10
Staff costs	**614**	646
Auditors' remuneration – Group audit services	**43**	61
– Company audit services	**20**	16
– tax fees	**71**	34
– other	**–**	10

6 Staff Costs

(a) The average number of employees (including Executive Directors) for both the Group and the Company was:

	Year ended 31 December 2005	Year ended 31 December 2004
Group and Company	**No.**	No.
Executive Directors	**2**	2
Non-Executive Directors	**3**	3
Other employees	**1**	2
	6	7

(b) The aggregate remuneration for both the Group and the Company comprised:

	€'000	€'000
Wages and salaries	**559**	581
Social security costs	**41**	50
Other pension costs	**14**	15
	614	646

The Executive Directors comprise the key management personnel of the Group and Company in both the current and previous years.

The total amounts for the Directors' remuneration was as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Executive Directors		
Emoluments	**369**	351
Pension contributions	**14**	15
Gains on exercise of share options	**65**	–
	448	366
Non-Executive Directors		
Emoluments	**44**	59
	44	59

Remuneration of the highest paid Director during the year was €208,000 (2004 – €199,000) plus pension contributions of €14,000 (2004 – €15,000) and gains on exercise of share options of €65,000 (2004 – nil).

Sir Eric Parker has a separate consultancy agreement with the Company payable at the rate of €21,960 (£15,000) per annum with effect from 1 January 2001.

7 Finance Income

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Interest on bank deposits	**335**	333
Gain on foreign exchange	**283**	–
Gain on disposal of interest rate collar	**–**	162
	618	495

8 Other Gains and Losses

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Profit on sale of subsidiary	**–**	3,692
	–	3,692

9 Finance Costs

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Bank loans and overdrafts	**(1,610)**	(1,395)
Loss on foreign exchange	**–**	(130)
	(1,610)	(1,525)

10 Tax

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Current tax charge	**(9)**	(4,639)
Deferred tax	**286**	174
	277	(4,465)

Corporation tax is calculated at 30% (2004 – 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Profit on ordinary activities before tax	**4,832**	6,151
Tax on profit on ordinary activities at standard rate	**(1,450)**	(1,845)
Expenses not deductible for tax purposes	**(64)**	(3,861)
Capital allowances in excess of depreciation	**4**	7
Increase in UK losses	**(172)**	(568)
Utilisation of tax losses brought forward	**–**	1,055
Differences between overseas tax rates	**19**	(536)
Increase in overseas losses	**200**	(80)
Adjustment in respect of prior year	**–**	(74)
Property revaluation not taxed	**76**	–
Non taxable income	**11**	–
Sale of subsidiary not taxed	**1,653**	1,437
Tax expense for the year	**277**	(4,465)

11 Dividends

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year ended 31 December 2004 of €0.04 (3.0p) (2003 – €0.04 (3.0p)) per share	**306**	313
Interim dividend for the year ended 31 December 2005 of €0.04 (3.0p) (2004 – €0.05 (3.0p)) per share	**303**	303
	609	616
Proposed final dividend for the year ended 31 December 2005 of €0.06 (4.0p) per share (2004 – €0.04 (3.0p))	**415**	303

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12 Earnings per Share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	Year ended 31 December 2005	Year ended 31 December 2004
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**€5,109,314**	€1,685,504

Number of shares

	Year ended 31 December 2005	Year ended 31 December 2004
Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share	**6,927,446**	7,321,612
Basic and diluted earnings per share	**€0.74**	€0.23

13 Investment Property – Group

Fair value	**Total**
	€'000
At 1 January 2005	**–**
Additions during the year	**49,546**
Increase in fair value during the year	**2,188**
At 31 December 2005	**51,734**

The fair value of the Group's investment property at 31 December 2005 has been assessed by the Directors having regard to prices paid during the year, prevailing market conditions and, in respect of one property, an independent professional valuation.

One investment property is held under a ground lease expiring in 2050. All other investment properties represent freehold interests.

The Group has pledged all of its investment property to secure general banking facilities granted to the Group.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to €2.40m (31 December 2004 – nil). Direct operating expenses arising on the investment property in the period amounted to €1.70m (31 December 2004 – nil).

14 Investments

Available-for-sale investments

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Cost	**2**	2

The investments included above represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. The fair values of these securities – based on quoted market prices at the year end – are not materially different to book value and thus no adjustment has been made.

15 Inventories

Inventories comprising trading properties with a carrying amount of €2.0 million (2004 – €12.7 million) have been pledged as security for certain of the Group's bank loans. Inventories totalling €9.4 million (2004 – €63.3 million) were expensed during the period in relation to property disposals. Inventories held at 31 December 2005 are expected to be realised during 2007.

16 Subsidiaries – Company

	Total
	€'000
Cost at 1 January 2005 and 31 December 2005	**687**
Provisions at 1 January 2005 and 31 December 2005	**(141)**
Net book value at 31 December 2004 and 2005	**546**

The Company's principal subsidiaries at 31 December 2005 were as follows:

	Nature of Business	Percentage Shareholding of Ordinary Shares	Country of Incorporation/Operation
Touquet Europe BV	Holding Company	100	Netherlands
IRE German Property Holding BV	Holding Company	100	Netherlands
German Property I BV	Property Investment	100	Netherlands
German Property II BV	Property Investment	100	Netherlands
IRE 2 Immobilien GmbH	Property Investment	100	Germany
Bersarinplatz GmbH	Property Investment	90	Germany
IRE 4 Immobilien GmbH	Property Investment	100	Germany

The 10% minority interest in Bersarinplatz is held by a private investor, Mr. Christopher Nordström, acting independently.

17 Joint Venture Arrangements

IRE 4 Immobilien GmbH has a 50% interest in a jointly controlled investment property. The consolidated financial statements include the following amounts in relation to this jointly controlled asset.

	31 December 2005	31 December 2004
	€'000	€'000
Total assets	**4,426**	–
Total liabilities	**(3,689)**	–
Income	**203**	–
Expense	**(160)**	–

18 Trade and Other Receivables

	Group		**Company**	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	€'000	€'000	**€'000**	€'000
Amounts falling due within one year				
Trade receivables	**2,019**	123	**15**	9
Amounts owed by Group undertakings	**–**	–	**13,983**	15,055
Other debtors	**67**	640	**17**	587
Prepayments	**911**	341	**24**	408
	2,997	1,104	**14,039**	16,059

The Group's principal financial assets comprise cash and trade receivables. In the opinion of the Directors, the book value of these financial assets approximate to their fair value at the balance sheet date.

Amounts owed by Group undertakings bear interest at 8% (2004 – 8%). During the year interest charged totalled €1.14 million (2004 – €1.09 million).

The amounts shown for trade receivables represent the Group's maximum credit risk exposure at the balance sheet date.

The Group has no significant concentration of credit risk, with exposure spread over a large number of lessees.

19 Cash and Cash Equivalents

The Group and Company cash balances include €43,000 held in Sterling (2004 – €120,000). All other balances in both financial periods are held in Euros.

Surplus cash balances are held on short term deposit earning market rates of interest.

20 Bank Overdrafts and Loans – Group

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Bank loans	**34,157**	7,066
	34,157	7,066

The borrowings are repayable as follows:		
On demand or within one year	**21**	240
In the second year	**492**	240
In the third to fifth years inclusive	**1,477**	720
After five years	**32,167**	5,866
	34,157	7,066
Less: Amount due for settlement within 12 months	**21**	240
Amount due for settlement after 12 months	**34,136**	6,826

All borrowings, in both financial periods, are denominated in Euros.

The weighted average interest rates paid were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	%	%
Bank loans	**3.36**	2.96

Bank loans at 31 December 2005 are arranged at fixed rates, thus exposing the Group to fair value and interest rate risk.

The Directors estimate the fair value of the Group's borrowings as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	€'000	€'000
Bank loans	**34,157**	7,066
	34,157	7,066

The other principal features of the Group's borrowings are as follows:

At 31 December 2005 the Group had five principal bank loans:

(i) a loan of €10.500 million (2004 – nil). The loan was taken out on 5 August 2005. Repayments commence in January 2007 and will continue until June 2015. The loan is secured over certain of the Group's properties. The loan carries interest rate at 3.16%.

(ii) a loan of €4.200 million (2004 – nil). The loan was taken out on 20 October 2005. Repayments commenced in December 2005 and will continue until July 2012. The loan is secured over certain of the Group's properties. The loan carries interest rate at 3.07%.

20 Bank Overdrafts and Loans – Group (continued)

(iii) a loan of €3.800 million (2004 – nil). The loan was taken out on 1 November 2005. Repayments commence in January 2006 and will continue until October 2012. The loan is secured over certain of the Group's properties. The loan carries interest rate at 4.24%.

(iv) a loan of €3.575 million (2004 – nil). The loan was taken out on 2 November 2005. Repayments commence in January 2006 and will continue until October 2010. The loan is secured over certain of the Group's properties. The loan carries interest rate at 3.31%. This loan is held in a joint partnership for which the Group holds 50%. Undrawn facilities under this loan arrangement at 31 December 2005 were €0.15 million (2004 – nil).

(v) a loan of €12.082 million (2004 – nil). The loan was taken out on 21 December 2005. Repayments commence in January 2006 and will continue until December 2015. The loan is secured over certain of the Group's properties. The loan carries interest rate at 4.36%. This loan is held in a joint partnership for which the Group holds 90%. Undrawn facilities under this loan arrangement at 31 December 2005 were €4.33 million (2004 – nil).

At 31 December 2004 the Group had the following principal bank loan:

(i) a loan of €7.066 million. The loan was taken out on 14 December 2001 and repaid in October 2005.

21 Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period;

	Revaluation	Accelerated Tax Depreciation	Total
	€'000	€'000	€'000
At 1 January 2004	–	789	789
Credit to income	–	(174)	(174)
Exchange differences	–	(3)	(3)
At 1 January 2005	–	612	612
Charge/(credit) to income	580	(866)	(286)
At 31 December 2005	**580**	**(254)**	**326**

At the balance sheet date, the Group and Company had unused capital tax losses amounting to €5,266,000 (2004 – €4,784,000).

22 Current Liabilities

	Group		Company	
	31 December 2005	31 December 2004	**31 December 2005**	31 December 2004
	€'000	€'000	**€'000**	€'000
Bank loans and overdrafts (note 20)	**21**	240	**–**	–
Finance lease creditor (note 27)	**37**	–	**–**	–
Amounts owed by Group undertakings	**–**	–	**1,120**	1,432
Corporation tax	**–**	83	**–**	34
Social security and other taxes	**95**	54	**30**	–
Other creditors	**685**	2,463	**10**	1,625
Provisions (note 23)	**4,146**	7,800	**–**	–
Accruals and deferred income	**3,501**	292	**161**	111
	8,485	10,932	**1,321**	3,202

Amounts owed to Group undertakings accrue interest at 8% (2004 – 8%). During the year interest charged totalled €68,000 (2004 – €63,000).

23 Provisions

	Year ended 31 December 2005
	€'000
At 1 January	**17,800**
Utilisation of provision	**(7,654)**
At 31 December	**10,146**
Included in current liabilities	**4,146**
Included in non-current liabilities	**6,000**
At 31 December	**10,146**

Provisions represent the management's best estimates, based on past experience, of the Group's liability for guarantees and commitments granted in relation to property disposals in the current and preceding year. Such provisions relate to agreed refurbishment works, rental guarantees, legal costs, environmental and other obligations. The provisions are expected to be utilised over the period to 31 December 2008.

There are a number of inherent estimation uncertainties in determining the appropriate level of provisions, including matters such as timing and extent of refurbishment required and level of lettings achieved.

24 Share Capital

	31 December 2005	31 December 2004
Authorised:		
9,953,805 Ordinary Shares at 40p each	**£3,981,522**	£3,981,522
Issued and fully paid:		
6,927,446 Ordinary Shares at 40p each	**€4,408,430**	€4,408,430

Details of outstanding share options are given in the Report of the Directors on pages 7 and 8.

25 Retained Earnings and Total Equity

	Retained Earnings		Total Equity	
	Group	Company	Group	Company
	€'000	€'000	€'000	€'000
Balance at 1 January 2004	6,397	3,463	19,328	16,394
Dividends paid	(616)	(616)	(616)	(616)
Net profit/(loss) for the year	1,686	(1,440)	1,686	(1,440)
Purchase of own shares	(598)	(598)	(598)	(598)
	6,869	809	19,800	13,740
Balance at 1 January 2005	6,869	809	19,800	13,740
Dividends paid	(609)	(609)	(609)	(609)
Net profit for the year	5,109	785	5,109	785
Balance at 31 December 2005	**11,369**	**985**	**24,300**	**13,916**

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

The following describes the nature and purpose of each reserve within total equity for both the Group and Company.

Share Premium:	Amount subscribed for share capital in excess of nominal value.
Capital Redemption:	Amount transferred from share capital on redemption of issued shares in 2004.
Retained Earnings:	Cumulative net gains and losses recognised in the income statement.

26 Notes to the Cash Flow Statement

(a) Group	**31 December 2005**	31 December 2004
	€'000	€'000
Operating profit	**5,824**	3,489
Adjustments for:		
Depreciation of plant and equipment	**–**	10
Increase in fair value of investment properties	**(2,188)**	–
Decrease in provisions	**(7,654)**	–
Operating cash flows before movements in working capital	**(4,018)**	3,499
Decrease in inventories	**10,770**	43,437
(Increase)/decrease in receivables	**(1,893)**	910
Increase in payables	**2,125**	17,711
Cash generated from operations	**6,984**	65,557
Income taxes paid	**–**	(2)
Net cash from operating activities	**6,984**	65,555

(b) Company	**31 December 2005**	31 December 2004
	€'000	€'000
Operating profit/(loss)	**(8)**	(1,440)
Adjustments for:		
Depreciation of plant and equipment	**–**	10
Operating cash flows before movements in working capital		
Decrease in investment property	**–**	848
Decrease in receivables	**2,057**	2,176
(Decrease)/increase in payables	**(1,881)**	655
Net cash from operating activities	**168**	2,249

27 Lease Arrangements

Operating leases

The Group as lessor

Property rental income earned during the year was €3.37 million (2004 – €2.47 million) net of operating expenses of €2.93 million (2004 – €0.77 million). One of the Group's properties was disposed of during the financial year. This property generated rental income of €0.79 million (2004 – €1.12 million) during the year.

At the balance sheet date, the Group had contracted with its commercial tenants for the following future minimum lease payments under non-cancellable operating leases:

	31 December 2005	31 December 2004
	€'000	€'000
Within one year	**176**	1,115
In the second to fifth years inclusive	**422**	2,435
After five years	**561**	–
	1,159	3,550

In addition to the future minimum lease payments shown above, at the balance sheet date, the Group had cancellable lease arrangements with its residential tenants. Based on the current level of lettings remaining stable, these arrangements are expected to generate rental income of approximately €2.68 million in the year ended 31 December 2006.

The Group as lessee

	31 December 2005	31 December 2004
	€'000	€'000
Minimum lease payments under operating leases recognised in income for the year	**29**	87

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of one year and rentals are fixed for a term of one year.

Finance leases

One of the Group's investment properties is held under a head lease. In accordance with IAS 40, this is accounted for as a finance lease with the sum of the present value of the minimum ground rent payments being included in the Balance Sheet as a finance lease obligation.

Future lease payments are due as follows:

	Minimum Lease Payments 2005	Interest 2005	**Present Value 2005**
	€'000	€'000	**€'000**
Not later than one year	39	2	**37**
Later than one year and not later than five years	156	29	**127**
Later than five years	1,521	1,085	**436**
	1,716	1,116	**600**

The Group had no such lease arrangements in 2004.

The present value of the future lease payments which, in the opinion of the Directors represents fair value at the balannce sheet date is analysed as:

	2005
	€'000
Current liabilities	**37**
Non-current liabilities	**563**
	600

28 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.

Details regarding the number of outstanding options under the Share Incentive Plan are given in the Report of the Directors on page 8.

29 Explanation of Transition to IFRS

These are the first annual Company and Group consolidated financial statements prepared in accordance with IFRS. In line with the transitional provisions set out in IFRS 1, the Directors have reviewed the Balance Sheet, Income Statement and Cash Flow Statement for the comparative period to consider whether any adjustments are required in order to align the numbers previously reported under UK GAAP with IFRS. Where necessary the amounts previously reported in accordance with UK GAAP have been adjusted. In the opinion of the directors, there were three areas where there could have been material differences.

Employee Share Options – In line with IFRS 2, employee share options are required to be fair valued at the date of grant and the resulting charge expensed through the income statement over the vesting period. The number of options granted that are required to be fair valued under IFRS 2 is 30,000. Given the historic share price performance, the Directors consider that the charge required in respect of these options would not be material and thus no adjustment has been made.

Dividends – Following IAS 10, dividends are now accounted for when paid, and not when proposed. An appropriate adjustment has been made to the comparative figures (see below).

Available for sale investments - under IFRS these are required to be shown on the balance sheet at fair value, with subsequent changes in that value being dealt with through the income statement. Having assessed the fair value of the Group's available for sale investments, the Directors have concluded that the difference between this and the carrying value shown in the financial statements is insignificant. Accordingly, no adjustment has been made. Further details are given in note 14.

In the opinion of the Directors, the only adjustments affecting the cashflow statement were presentational in nature. The adjustments to net assets and net profit (being profit after taxation) arising from the transition to IFRS were as follows.

	Group		**Company**	
	Net Assets	Net Profit / (Loss)	**Net Assets**	Net Profit / (Loss)
	€'000	€'000	**€'000**	€'000
UK GAAP balance at 1 January 2004	**19,015**		**16,081**	
Dividends	**313**		**313**	
IFRS balance at 1 January 2004	**19,328**	–	**16,394**	–
UK GAAP balance at 31 December2004	**19,494**	1,686	**13,434**	(1,440)
Dividends	**306**	–	**306**	–
IFRS balance at 31 December 2004	**19,800**	1,686	**13,740**	(1,440)

30 Contingent Liabilities

Details regarding the resolution of the long-standing legal dispute with Oaktree Capital Management LLC and Aubrey Glaser are given in the Chairman's Statement on pages 3 and 4.

31 Post Balance Sheet Events

Details of post balance sheet events are given in the Chairman's Statement on pages 3 and 4.

32 Controlling Party

The controlling party is Jermyn Business Ltd, a company indirectly beneficially controlled by the family of Rolf L. Nordström.

33 Conversion Rates

	2005	2004
Sterling/Euro annual average exchange rate (£=€)	**1.4640**	1.4720
Sterling/Euro annual closing rate (£=€)	**1.4510**	1.4150

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 the Stafford Hotel, 16-18 St. James's Place, London SW1A 1NJ on 10 July 2006 at 11.00am to transact the following business:

Ordinary Business

1. To receive and adopt the Report of the Directors and the audited Financial Statements for the year ended 31 December 2005.
2. To declare a dividend.
3. To re-elect John Lamb who retires by rotation, as a Director.
4. To re-elect Sir Eric Parker who retires by rotation, as a Director.
5. To re-appoint BDO Stoy Hayward LLP auditors 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 £1,210,544 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 £138,549;

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 conditional upon the delisting of the Company's entire issued share capital ('the Shares') from the official list of the United Kingdom Listing Authority and the re admission of the Shares to trading on the Alternative Investment Market of the London Stock Exchange plc and in substitution for any existing authorities, 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 2,000,000 ordinary shares;

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 five 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 9 July 2007.

22 Grafton Street
London W1S 4EX

By Order of the Board

Tom Shannon, Secretary
15 June 2006

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.

22 Grafton Street
London W1S 4EX

Registered in England and Wales
No 2101254