International Real Estate

Interim Report 2004

THE CHAIRMAN'S STATEMENT

During the first six months of the year the main activities of the Group related to its trading properties – the IT Tower and QPT Tower office blocks in Brussels.

Partly due to the positive influence of the 10 new countries entering the EU, the effects of the slowdown in economic activity have been less of an issue for the Brussels property market, compared to most other European capitals. Although the investment market remains very strong, the letting market has been difficult especially in the outskirts of the city.

We remain committed to building shareholder value and identifying development opportunities. In line with this policy, during the period several property acquisitions were considered, of which a number are still being analysed.

IT Tower

With respect to the IT Tower, the 22,778 square metre landmark office tower situated on Avenue Louise, our main efforts have been focused on the letting and the rolling refurbishment programme for the office floors and the communal areas. Following initial improvements we received an unsolicited offer from a consortium of Irish investors led by Bank of Ireland Private Banking. This trading property was sold to them for €71.2 million on 5 August, 2004.

After full provision for costs relating to the sale, certain guarantees to complete a defined renovation programme, rental guarantees and taxes, the Group will show a small surplus over the property's carrying value in the second half of the year. The Group will be responsible for the completion of the renovation programme and the letting of the property for a period of three years following completion of the sale. The outstanding debt secured over the property amounted to €31.5 million and has been repaid in full.

In addition, the Group has the opportunity of receiving additional consideration of up to a maximum of €2.2 million which is dependent on the outcome of the lettings over the next three years, which would be receivable at the end of the three-year period.

QPT Tower

The 11,255 square metre QPT Tower located at Quai aux Pierres de Taille in Brussels is fully let to high quality tenants with an average length of leases in excess of 3½ years. Our studies of various opportunities for a renovating/restructuring programme for the property are progressing. We expect the first phase, up to planning permission being received, to take between twelve to eighteen months.

Together with our architect and advisors, we are examining various alternatives to maximize the potential of the property. We are especially looking into the use of the adjacent land and how to extend parking capacity for the site.

The property is an excellent income generator and is producing rents of €1.11 million per annum, giving a gross yield of 11.75% on cost, which provides the Group with a strong cash-flow.

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 8 'Contingent liabilities' in the attached Interim Report. On the basis of legal advice received, the Board of Directors considers that the Group is unlikely to incur any material loss as a result of the Oaktree litigation and therefore no provision has been included in the accounts; however the matter will be kept under review.

The UK portfolio consists of the Limited Partnership property in Basingstoke, in which the Group has a 25% interest. Note 9 "Basingstoke partnership" in the attached Interim Report explains the status of the Limited Partnership and the fundamental uncertainties surrounding it.

The six months to 30 June 2004 resulted in a pre-tax loss of €145,000 (30 June 2003: pre-tax profit €50,000). The net asset value as at 30 June 2004 was €2.52 per share (31 December 2003: €2.58 per share). The Board proposes to pay an interim dividend of 3.0 pence (4.5 eurocents) per share (30 June 2003: 3.0 pence or 4.4 eurocents per share) payable on 19 November 2004, to shareholders on the register on 22 October 2004. The Board will carefully review the level of the final dividend based on the second half result.

The outlook for the second half of the year is difficult to project. It will depend largely on developments relating to the Basingstoke property and the Limited Partnership and other property disposals or purchases. The overall rental income is expected to be sufficient to cover our financing costs and a proportion of administrative expenses.

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
28 September 2004

INDEPENDENT REVIEW REPORT TO INTERNATIONAL REAL ESTATE PLC

Introduction

We have been instructed by the Group to review the financial information for the six months ended 30 June 2004 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of movements in shareholders' funds and the related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the Group in meeting the requirements of the Listing Rules of the Financial Services Authority 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 our terms of engagement 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.

Directors' responsibilities

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

Review work performed

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures in note 9 relating to the Group's 25% interest in a limited partnership. There are fundamental uncertainties as to:

- the amount of any liability the Group may have under guarantees it has given in respect of bank loans to the limited partnership; and
- the amount that the Group may be able to recover under a 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.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six month period ended 30 June 2004.

BDO Stoy Haywood LLP
Chartered Accountants
London

28 September 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

	Note	**Six month period ended 30.6.2004**	Six month period ended 30.6.2003	Year ended 31.12.2003
		€'000 Unaudited	€'000 Unaudited	€'000 Audited
Turnover				
Net rental income		**1,586**	1,906	3,743
Property sales		**–**	11,314	11,314
		1,586	13,220	15,057
Cost of sales		**–**	(11,161)	(11,294)
Gross Profit		**1,586**	2,059	3,763
Exceptional charges – Litigation	2	**(453)**	(38)	(81)
Impairment in value of investment property	2	**–**	–	(91)
Other administrative expenses		**(793)**	(866)	(1,744)
Total administrative expenses		**(1,246)**	(904)	(1,916)
Other operating income		**2**	–	83
Operating Profit and Profit on Ordinary Activities before Interest and Taxation		**342**	1,155	1,930
Interest receivable and similar income		**32**	128	209
Interest payable and similar charges		**(742)**	(1,033)	(1,919)
Movement in fair value of derivatives		**223**	(200)	170
Total interest payable		**(519)**	(1,233)	(1,749)
(Loss)/Profit on Ordinary Activities before Taxation		**(145)**	50	390
Tax (charge)/credit on (loss)/profit on ordinary activities	3	**(26)**	151	10
(Loss)/Profit on Ordinary Activities after Taxation and (Loss)/Profit for the Financial Period		**(171)**	201	400
Equity dividends		**(325)**	(318)	(631)
Retained Loss for the Financial Period		**(496)**	(117)	(231)
Basic and diluted (loss)/earnings per share	4	**(€0.02)**	€0.03	€0.05

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

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2004

	Note	**30.6.2004**	30.6.2003	31.12.2003
		€'000 **Unaudited**	€'000 Unaudited	€'000 Audited
Fixed Assets				
Investment properties	9	**894**	957	848
Other tangible assets		**5**	17	10
Investments		**2**	2	2
		901	976	860
Current Assets				
Stock – trading properties	5	**57,566**	55,634	56,169
Debtors		**1,405**	1,500	1,438
Cash at bank and in hand		**3,047**	6,412	4,718
		62,018	63,546	62,325
Current Liabilities				
Creditors: amounts falling due within one year				
– Borrowings		**(2,127)**	(965)	(1,993)
– Other		**(3,878)**	(4,075)	(3,177)
		(6,005)	(5,040)	(5,170)
Net Current Assets		**56,013**	58,506	57,155
Total Assets Less Current Liabilities		**56,914**	59,482	58,015
Creditors: amounts falling due after more than one year				
– Borrowings		**(37,645)**	(39,703)	(38,211)
Provisions for liabilities and charges:				
Deferred taxation		**(750)**	(650)	(789)
Net Assets		**18,519**	19,129	19,015
Capital and Reserves				
Called up share capital		**4,683**	4,683	4,683
Share premium account	6	**7,957**	7,957	7,957
Capital redemption reserve	6	**291**	291	291
Profit and loss account	6	**5,588**	6,198	6,084
Equity Shareholders' Funds		**18,519**	19,129	19,015

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

	Six month period ended 30.6.2004	Six month period ended 30.6.2003	Year ended 31.12.2003
	€'000 Unaudited	€'000 Unaudited	€'000 Audited
(Loss)/Profit for the financial period	**(171)**	201	400
Dividends	**(325)**	(318)	(631)
Net reduction in Shareholders' funds	**(496)**	(117)	(231)
Opening Shareholders' funds	**19,015**	19,246	19,246
Closing Shareholders' Funds	**18,519**	19,129	19,015

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

	Note	**Six month period ended 30.6.2004**	Six month period ended 30.6.2003	Year ended 31.12.2003
		€'000 Unaudited	€'000 Unaudited	€'000 Audited
Net cash (outflow)/inflow from operating activities	7(a)	**(207)**	5,403	5,290
Returns on investments and servicing of finance				
Interest paid		**(696)**	(1,033)	(1,826)
Interest received		**32**	64	83
		(664)	(969)	(1,743)
Taxation paid		**–**	(33)	(33)
Equity dividends paid		**(308)**	(447)	(770)
Cash (outflow)/inflow before financing		**(1,719)**	3,954	2,744
Financing				
Repayment of amounts borrowed		**(485)**	(463)	(904)
		(485)	(463)	(904)
(Decrease)/Increase in cash	7(b)	**(1,664)**	3,491	1,840
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash		**(1,664)**	3,491	1,840
Cash outflow from decrease in debt		**485**	463	904
Movement in net debt		**(1,179)**	3,954	2,744
Non cash movements		**–**	5,493	5,493
Exchange movements		**(60)**	182	162
Net debt at 1 January		**(35,486)**	(43,885)	(43,885)
Net debt at end of period	7(b)	**(36,725)**	(34,256)	(35,486)

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

1 Preparation of interim financial information

This financial information for the six months ended June 2004 has not been audited, nor has that for the equivalent period in 2003.

This financial information has been prepared on the basis of the accounting policies set out in the full accounts for the year ended 31 December 2003.

The financial information contained in this report does not constitute statutory accounts within the meaning of S240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2003 have been delivered to the Registrar of Companies and the audit report on those accounts was unqualified and did not contain any statements under section 237 of the Companies Act.

2 Income and charges

	Six month period ended 30.6.2004	Six month period ended 30.6.2003	Year ended 31.12.2003
	€'000	€'000	€'000
Other litigation and related exceptional costs	**453**	38	81
Provision for impairment in value of investment properties	**–**	–	91
	453	38	172

3 Tax on Profit on Ordinary Activities

	Six month period ended 30.6.2004	Six month period ended 30.6.2003	Year ended 31.12.2003
	€'000	€'000	€'000
The tax (charge)/credit on the (loss)/profit on ordinary activities for the period was as follows:			
UK Corporation tax at 30.00%	**–**	–	–
Adjustment in respect of prior year	**(66)**	(10)	(10)
Current tax charge	**(66)**	(10)	(10)
Deferred taxation	**40**	161	20
	(26)	151	10

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

4 Earnings per share

	Six month period ended 30.6.2004	Six month period ended 30.6.2003	Year ended 31.12.2003
Earnings per share are calculated as follows:			
(Loss)/profit for the period	**(€171,000)**	€201,000	€400,000
Weighted average number of shares in issue	**7,357,446**	7,357,446	7,357,446
Basic and diluted earnings per share	**(€0.02)**	€0.03	€0.05

5 Stocks – trading properties

Trading properties at 30 June 2004 comprise the IT Tower and the QPT Tower, Brussels. Additional information is shown in note 10 "Post balance sheet events".

6 Reserves

	Share premium Account	**Capital Redemption Reserve**	**Profit and Loss Account**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
At 1 January 2004	7,957	291	6,084	**14,332**
Retained loss for the financial period	–	–	(496)	**(496)**
	7,957	**291**	**5,588**	**13,835**

7 Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

	Six month period ended 30.6.2004	Six month period ended 30.6.2003	Year ended 31.12.2003
	€'000	€'000	€'000
Operating profit	**342**	1,155	1,930
Depreciation and amortisation charges	**4**	20	27
Impairment in value of investment property	**–**	–	91
(Increase)/decrease in trading properties	**(1,397)**	4,619	4,084
Decrease/(increase) in debtors	**32**	(75)	(12)
Increase/(decrease) in creditors	**812**	(316)	(830)
Net cash (outflow)/inflow from operating activities	**(207)**	5,403	5,290

(b) Analysis of net debt

	At 1 January 2004	Cash Flow	Other non-cash movements	Exchange Movements	**At 30 June 2004**
	€'000	€'000	€'000	€'000	**€'000**
Cash at bank and in hand	4,718	(1,664)	–	(7)	**3,047**
Debt due within one year	(1,993)	485	–	(619)	**(2,127)**
Debt due after one year	(38,211)	–	–	566	**(37,645)**
	(35,486)	(1,179)	–	(60)	**(36,725)**

NOTES TO THE ACCOUNTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

8 Contingent Liabilities

By a circular dated 11 February 1998, the Group 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 Group, 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 Group to buy out the Oaktree share of the partnership on terms highly beneficial to Oaktree in the event of a change of control of the Group 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 Group to buy out the Oaktree share on the basis set out above, which on current estimates would cost the Group approximately €16 million, increasing annually at a rate of 25% compounded monthly.

The Group claims the Agreement is unenforceable and accordingly on 10 July 2001 the Group issued proceedings in the High Court for an order that the Agreement be set aside. On the Group's application for summary judgement Mr. Justice Hart found in favour of the Group 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 granted leave to appeal. The appeal was heard on 10-11 May 2004 and was dismissed by the House of Lords. This decision means that the case will now go to full trial, being unsuitable for summary proceedings. On the basis of the legal advice it has received, the Board of Directors continues to believe that the Group 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 Group received a claim from Mr. Glaser for compensation for loss of office totalling €417,000 (£280,000). The Group is vigorously defending this claim and having regard to the legal advice received by the Group, no provision has been included in the accounts for this contingent liability.

9 Basingstoke Partnership

Investment property comprises the Group's 25% share of the investment in Mobius House property, Basingstoke. This property, which is unlet, was valued at £2,400,000 (€3,392,000) by FPD Savills, Chartered Surveyors, in accordance with the requirements of the Royal Institute of Chartered Surveyors on 31 December 2003 on the basis of open market value. The Group's 25% share has been retranslated to €894,000 at 30 June 2004.

The property is owned by a limited partnership between the Group and Stratford UK Properties LLC ("Oaktree"). The Group is in litigation with Oaktree, details of which are set out in note 8.

The partnership is financed as follows:

1. A senior loan of £1,800,000 (€2,686,000) which is non recourse to the Group and in respect of which the Group has given a guarantee on any interest shortfall.
2. A junior loan of £980,000 (€1,462,000) in respect of which the Group has given a guarantee on both principal and any interest shortfall.

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

The Group has proportionally consolidated its 25% share of the partnership's property, loans and other assets and liabilities. No provision has been included for any of the guarantees and counter-indemnities at 30 June 2004. At that date interest payments were up to date although the Group had provided funding of €242,000 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 30 June 2004.

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 (€571,000) and the Group has provided for its share (25%) of this. The directors believe that, in such circumstances, the limited partners (Oaktree and the Group) 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 Group, there is uncertainty as to whether sufficient funding will be provided. Accordingly there are fundamental uncertainties as to:

- the Group's liability under the interest and principal guarantees which may be crystallised if sufficient additional funding is not provided; and
- the amount that the Group 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 Group 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 Group arising from these uncertainties is approximately £849,000 (€1,267,000).

NOTES TO THE ACCOUNTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004

10 Post balance sheet events

Basingstoke

On 23 July 2004 the senior lender, Eurohypo AG, used its right to exercise its power under the loan agreement to appoint KPMG as administrative receivers for the general partner and the nominee corporation holding the property Mobius House in Basingstoke.

IT Tower

On 5 August 2004 the Group sold the leasehold property IT Tower in Brussels to a consortium of Irish investors led by Bank of Ireland Private Banking for €71,200,000.

After full provision for costs relating to the sale, certain guarantees to complete a defined renovation programme, rental guarantees and taxes, the Group will, in the accounts for the year ending 31 December 2004, show a small surplus over the property's carrying value in these interim accounts, where it is accounted for as a current asset, with a further upside value potential allowed for in the contract. The Group will remain responsible for the completion of the renovation programme and the letting of the property for a period of three years following completion of the sale. At 30 June 2004 the outstanding debts secured over the property amounted to €31,500,000 which has now been repaid in full.

In addition, the Group has the opportunity of receiving additional consideration which is dependent on the outcome of the lettings over the next three years, of up to a maximum of circa €2,200,000 which would be receivable at the end of the three-year period.

PROPERTY SCHEDULE

AT 28 SEPTEMBER 2004

Location	Type	Freehold or Leasehold	Lettable m²	Occupancy	Ground rent per annum
INTERNATIONAL REAL ESTATE PLC WHOLLY OWNED					
Quai Aux Pierres de Taille Brussels, Belgium	Office	Freehold	11,695	100%	
Total, wholly owned properties:			**11,695**		
PARTNERSHIP PROPERTIES					
Criterion-Stratford (Basingstoke) Limited at 25% interest					
Basingstoke – Mobius House Viables Industrial Estate, Basingstoke	Office	Leasehold to 2107	4,093	0%	18% of rent received
TOTAL, OWNED OR UNDER MANAGEMENT:			**15,788**		
SUMMARY:					
International Real Estate PLC wholly owned properties			**11,695**		
International Real Estate PLC share of Partnership Properties @ 25%			**1,023**		
TOTAL, WHOLLY OWNED AND SHARE OF PARTNERSHIP:			**12,718**		

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