

**REO SECURITIES LIMITED**

INTERIM RESULTS  
FOR THE SIX MONTHS  
ENDED 31 AUGUST 2010



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REO Securities Limited ("the Company") is a wholly owned subsidiary of Real Estate Opportunities plc ("REO" or "the Group"). Shareholders' attention is drawn to the Group's interim results which are also published today (29 October 2010).

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# Chairman's statement



Real Estate Opportunities plc ("REO" or "the Group"), the parent company of REO Securities Limited, and its advisers have made significant progress towards agreeing a balance sheet restructuring of the Group, including a restructuring of the Zero Dividend Preference Shares (ZDPs), which will provide the Group with a firm platform for the future.

## Company Background

On 14 February 2008, the Royal Court of Jersey granted approval for a Scheme of Arrangement (described in a circular to the shareholders of REO dated 18 December 2007). The Scheme involved the Zero Dividend Preference Shares ("ZDPs"), part of the share capital of REO being cancelled and, in exchange, new ZDPs were issued on a one for one basis by the Company, a newly incorporated subsidiary of REO. Implementation of the Scheme will allow the new ZDPs to be settled by way of winding up of the Company on 31 May 2011 rather than the winding up or reconstruction of REO itself.

Admission of the 57,755,782 new ZDPs of the Company to the Official List of the UK Listing Authority took place on 18 February 2008, with dealings therein on the London Stock Exchange commencing on the same day.

## Going Concern

The Company's only asset consists of a receivable from its parent, REO, a company incorporated in Jersey. Therefore, the Company's ability to continue in business and satisfy its future obligations to the holders of the ZDPs is dependent on REO. To that effect, REO and the Company previously entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of REO will effectively be made available to meet the repayment entitlement of the ZDPs on the Repayment Date, 31 May 2011.

The Group has recently reached outline agreement with the holder of the Series A and Series B loan notes ("OLNs") and an ad hoc informal committee of holders of both the Group's 7.5% Convertible Unsecured Loan Notes ("CULS"), and the ZDPs (together the "Committee") on the terms of a financial restructuring of REO which includes the deferral of all principal and interest payments due on the OLN's until 31 May 2011 which will also enable the demerger of the Battersea Power Station. The terms of the financial restructuring are subject to the Group meeting key milestones. The proposals with the Committee involve an equitisation of the CULS and ZDPs into equity of the demerged Battersea Power Station subsidiary and REO. The key milestones include the receipt of approvals to the restructuring from Lloyds Banking Group ("LBG") and the National Asset Management Agency ("NAMA"); the passing of resolutions approving the proposals at meetings of the ordinary shareholders, CULS and ZDPs no later than 31 January 2011; and the granting of planning permission in respect of Battersea Power Station by 31 May 2011. The outline agreement reached with the Committee means that, together with the support of Treasury Holdings and the Directors, the Group has reached outline agreement with 59.5% of the CULS and 59.8% of the ZDPs.

At 31 August 2010, the Group's borrowings totalled £1.66 billion. At that date, the Group had an investment and development portfolio which it valued at £1.05 billion, together with cash and cash equivalents of £20 million, and restricted cash of £19 million. The deficit on shareholders' funds was £755 million.

The Group's future operating performance will be affected by general economic, financial and business conditions, many of which remain beyond the Group's control.

At 31 August 2010, the Group had aggregate bank loans of £975 million classified as current liabilities.

In addition, the Group had obligations of £375 million due to the holders of its CULS, its ZDPs and the OLN's, all of which mature in May 2011. Based on its current financial position, and as previously announced, the Group is unable to repay those instruments on their maturity.

The liabilities due to holders of the CULS and ZDPs at 31 August 2010 amounted to £101 million and £128 million respectively, with a principal amount of £146 million due to the holder of the OLN's at this date.

Interest payments of £3.8 million and £5.0 million due at 31 August 2010 to the holders of the CULS and OLN's respectively were not made at this date.

# Chairman's statement

(continued)

The Group has also renegotiated the loan facilities relating to Battersea Power Station with LBG (previously Bank of Scotland) and NAMA (previously Bank of Ireland), extending the existing facility to 31 August 2011 and waiving all outstanding breaches. The extension and waiver agreement is conditional upon the Group effecting a compromise by 29 October 2010 with the holders of the CULS. In addition, prior to the 28 February 2011, the Group will need either to conclude agreements with the OLNs, CULS and ZDPs or extend their maturities to no earlier than 30 September 2011.

NAMA's advisers have completed their review of the Group's comprehensive business plan submitted to NAMA in early May 2010. The Group continues to seek broad approval from the board of NAMA for the business plan.

The key assumptions made in preparing the Group's business plan for the period to 31 October 2011 include:

- Broad approval by NAMA of the Group's business plan.
- The renewal by NAMA of bank facilities in the amount of £780 million on broadly similar terms.
- The agreement of NAMA to defer interest payments.
- The provision by NAMA of working capital facilities.
- The agreement of the holders of the CULS and Series A and Series B loan notes to a standstill on the payment of interest in the period to 31 October 2011.
- Agreement with each of the holders of the CULS, ZDPs and OLN's whereby the capital amounts due on maturity in May 2011 will not represent a cash outflow for REO.

- Certain of the Group's fee arrangements with Treasury Holdings will be restructured to cap the fees paid in the period to 31 October 2011.
- Planning permission for the proposed development of Battersea Power Station will be granted in the near future.
- It is anticipated that the Group's interest in Battersea Power Station will be restructured and that an equity partner will be introduced on the Battersea development providing all project financing in 2011.
- The ability of the Group to raise further capital after its debt facilities have been renegotiated and its interest in Battersea Power Station has been restructured.

Based on the Group's current business plan and the key assumptions noted above, the Board believes that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of this report.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure to achieve the above assumptions and objectives could cast significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

However, having discussed the assumptions and basis of preparation supporting the Group's cash flow projections, together with the advanced status of negotiations with the Group's key lenders, the Directors of the Company have a reasonable expectation that the Company will be able to meet its liabilities as they fall due for the foreseeable future.

On this basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. No adjustment which would result from a change in the going concern basis of preparation has been included in the financial statements.

## **Valuation of investment properties and investment properties under development**

The Group's principal assets comprise investment properties and investment properties under development, located in Ireland and the UK, which are being carried in the financial statements at fair value.

As previously indicated in the Group's June 2009 Interim Management Report, the Group has commissioned Treasury Holdings, in its capacity as Group Investment Adviser, to undertake these valuations for the interim period only. The primary source of evidence for property valuations should be recent, comparable market transactions on arm's length terms. However, the valuation of the Group's property portfolio is inherently subjective in the present market environment due to the continuing low volume of comparable transactions. Shareholder attention is drawn to the Investment Adviser's Report in REO plc's interim results for further details.

**Ray Horney**  
**Chairman**  
**27 October 2010**

# Principal risks and uncertainties

The most significant risks to the Company relates to its arrangements with REO.

In order for the Company to have sufficient assets to repay the ZDPs, REO and the Company previously entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of REO will effectively be made available to meet the repayment entitlement of the ZDPs on the Repayment Date, 31 May 2011, after payment of all other creditors of the Company.

Pursuant to the Undertaking Agreement, REO agrees to contribute to the Company (by way of gift, capital contribution or otherwise) such an amount as will result in the Company having sufficient assets to satisfy the then current or, as the case may be, final capital entitlement of the ZDPs on the Repayment Date or any earlier winding up of the Company.

As noted in the Chairman's Statement, the Group has reached outline agreement with the holders of the OLN's and the Committee on the terms of a financial restructuring of REO which will also enable the demerger of the Battersea Power Station. The terms of the financial restructuring includes the deferral of all principal and interest payments due on the OLN's until 31 May 2011 and are subject to the Group meeting the key milestones outlined in the Chairman's Statement. The proposals with the Committee involve an equitisation of the CULS and ZDPs into equity of the demerged Battersea Power Station subsidiary and REO.

The outline agreement reached with the Committee means that, together with the support of Treasury Holdings and the Directors, the Group has reached outline agreement with 59.5% of the CULS and 59.8% of the ZDPs.

## Responsibility Statement

Each of the directors confirms that, to the best of each person's knowledge and belief:

- (a) the condensed consolidated interim financial statements comprising the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 11 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.
- (b) the interim management report includes a fair review of the information required by:
  - (i) *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (ii) *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

## By order of the Board

**Ray Horney**  
Chairman  
27 October 2010

# Condensed statement of financial position

As at 31 August 2010

	Note	31 August 2010 Unaudited	28 February 2010 Audited
<i>In thousands of pounds sterling</i>			
<b>Assets</b>			
Trade and other receivables	2	-	122,119
<b>Total non current assets</b>		-	<b>122,119</b>
<hr/>			
Trade and other receivables	2a	127,537	-
<b>Total current assets</b>		<b>127,537</b>	-
<hr/>			
<b>Total assets</b>		<b>127,537</b>	<b>122,119</b>
<hr/>			
<b>Equity</b>			
Issued capital	3	-	-
Retained earnings	4	-	-
<b>Total shareholders' equity</b>		-	-
<hr/>			
<b>Liabilities</b>			
Zero Dividend Preference Shares	5	-	122,119
<b>Total non-current liabilities</b>		-	<b>122,119</b>
<hr/>			
Zero Dividend Preference Shares	5a	127,537	-
<b>Total current liabilities</b>		<b>127,537</b>	-
<b>Total Liabilities</b>		<b>127,537</b>	<b>122,119</b>
<hr/>			
<b>Total shareholders' equity and liabilities</b>		<b>127,537</b>	<b>122,119</b>

The accompanying notes form an integral part of these interim financial statements.

# Condensed interim income statement

For the six months ended 31 August 2010

	Note	31 August 2010 Unaudited	30 June 2009 Unaudited
<i>In thousands of pounds sterling</i>			
Finance income	6	5,418	4,820
Finance expense	6	(5,418)	(4,820)
<b>Net finance expense</b>		-	-
<b>Loss before tax</b>		-	-
Income tax expense	7	-	-
<b>Loss for the period</b>		-	-
<b>Earnings per Share</b>			
Basic loss per Ordinary Share	8	-	-

The accompanying notes form an integral part of these interim financial statements.

# Condensed interim statement of comprehensive income

For the six months ended 31 August 2010

31 August 2010 Unaudited	30 June 2009 Unaudited
--------------------------------	------------------------------

*In thousands of pounds sterling*

<b>Loss for the period</b>	-	-
<b>Total recognised income and expense for the period</b>	-	-

The accompanying notes form an integral part of these interim financial statements.

# Condensed statement of changes in equity

For the six months ended 31 August 2010

No condensed Statement of Change in Equity is presented as there were no changes in equity in the current or prior period.

# Condensed interim statement of cashflows

For the six months ended 31 August 2010

	31 August 2010 Unaudited	28 February 2010 Audited
<i>In thousands of pounds sterling</i>		
<b>Cash flows from operating activities</b>		
Loss for the period	-	-
Adjustments for:		
Net financial expense	-	-
Increase in non current liabilities	5,418	11,624
Increase in trade and other receivables	(5,418)	(11,624)
<b>Net cash from operating activities</b>	-	-
<b>Net movement in cash and cash equivalents</b>	-	-
Cash and cash equivalents at beginning of period	-	-
<b>Cash and cash equivalents at end of the period</b>	-	-

The accompanying notes form an integral part of these interim financial statements.

# Notes to the interim financial statements

## 1a. Basis of preparation

REO Securities Limited (the "Company") is a wholly owned subsidiary of REO and forms part of Real Estate Opportunities plc ("the Group").

The unaudited condensed interim financial statements of the Company are for the six months ended 31 August 2010 and the comparative period is the 6 months ended 30 June 2009. The change in period end is a result of the Company changing its financial year end to February in 2010. The statement of financial position has been prepared as at 31 August 2010 and the comparative is the 14 month audited financial statements as at 28 February 2010.

The financial statements are in pounds sterling, rounded to the nearest thousand.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Financial Statements as at and for the period ended 28 February 2010.

The financial information included in the interim financial statements is unaudited and does not constitute statutory accounts as defined in Companies (Jersey) Law 1991, (as amended).

## 1b. Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the period ended 28 February 2010.

The condensed interim financial statements were approved by the Board of Directors on 27 October 2010.

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited financial statements as at and for the period ended 28 February 2010.

## 1c. Going concern

The Company's only asset consists of a receivable from its parent, REO, a company incorporated in Jersey. Therefore, the Company's ability to continue in business and satisfy its future obligations to the holders of the ZDPs is dependent on REO. To that effect, REO and the Company previously entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of REO will effectively be made available to meet the repayment entitlement of the ZDPs on the Repayment Date, 31 May 2011.

The Group has recently reached outline agreement with the holder of the Series A and Series B loan notes ("OLNs") and an adhoc informal committee of holders of both the Group's 7.5% Convertible Unsecured Loan Notes ("CULS"), and the ZDPs (together the "Committee") on the terms of a financial restructuring of REO which includes the deferral of all principal and interest payments due on the OLN's until 31 May 2011 and which will also enable the demerger of the Battersea Power Station. The terms of the financial restructuring are subject to the Group meeting key milestones. The proposals with the Committee involve an equitisation of the CULS and ZDPs into equity of the demerged Battersea Power Station subsidiary and REO. The key milestones include the receipt of approvals to the restructuring from Lloyds Banking Group ("LBG") and the National Asset Management Agency ("NAMA"); the passing of resolutions approving the proposals at meetings of the ordinary shareholders, CULS and ZDPs no later than 31 January 2011; and the granting of planning permission in respect of Battersea Power Station by 31 May 2011. The outline agreement reached with the Committee means that, together with the support of Treasury Holdings and the Directors, the Group has reached outline agreement with 59.5% of the CULS and 59.8% of the ZDPs.

At 31 August 2010, the Group's borrowings totalled £1.66 billion. At that date, the Group had an investment and development portfolio which it valued at £1.05 billion, together with cash and cash equivalents of £20 million, and restricted cash of £19 million. The deficit on shareholders' funds was £755 million.

# Notes to the interim financial statements

(continued)

## 1c. Going concern (continued)

The Group's future operating performance will be affected by general economic, financial and business conditions, many of which remain beyond the Group's control.

At 31 August 2010, the Group had aggregate bank loans of £975 million classified as current liabilities.

In addition, the Group had obligations of £375 million due to the holders of its CULS, its ZDPs and the OLN, all of which mature in May 2011. Based on its current financial position, and as previously announced, the Group is unable to repay those instruments on their maturity.

The liabilities due to holders of the CULS and ZDPs at 31 August 2010 amounted to £101 million and £128 million respectively, with a principal amount of £146 million due to the holder of the OLN at this date.

Interest payments of £3.8 million and £5.0 million due at 31 August 2010 to the holders of the CULS and OLN respectively were not made at this date.

The Group has also renegotiated the loan facilities relating to Battersea Power Station with LBG (previously Bank of Scotland) and NAMA (previously Bank of Ireland), extending the existing facility to 31 August 2011 and waiving all outstanding breaches. The extension and waiver agreement is conditional upon the Group effecting a compromise by 29 October 2010 with the holders of the CULS. In addition, prior to the 28 February 2011, the Group will need either to conclude agreements with the OLN, CULS and ZDPs or extend their maturities to no earlier than 30 September 2011.

NAMA's advisers have completed their review of the Group's comprehensive business plan submitted to NAMA in early May 2010. The Group continues to seek broad approval from the board of NAMA for the business plan.

The key assumptions made in preparing the Group's business plan for the period to 31 October 2011 include:

- Broad approval by NAMA of the Group's business plan.
- The renewal by NAMA of bank facilities in the amount of £780 million on broadly similar terms.
- The agreement of NAMA to defer interest payments.
- The provision by NAMA of working capital facilities.
- The agreement of the holders of the CULS and Series A and Series B loan notes to a standstill on the payment of interest in the period to 31 October 2011.
- Agreement with each of the holders of the CULS, ZDPs and OLN whereby the capital amounts due on maturity in May 2011 will not represent a cash outflow for REO.
- Certain of the Group's fee arrangements with Treasury Holdings will be restructured to cap the fees paid in the period to 31 October 2011.
- Planning permission for the proposed development of Battersea Power Station will be granted in the near future.
- It is anticipated that the Group's interest in Battersea Power Station will be restructured and that an equity partner will be introduced on the Battersea development providing all project financing in 2011.
- The ability of the Group to raise further capital after its debt facilities have been renegotiated and its interest in Battersea Power Station has been restructured.

Based on the Group's current business plan and the key assumptions noted above, the Board believes that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of this report.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure to achieve the above assumptions and objectives could cast significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

However, having discussed the assumptions and basis of preparation supporting the Group's cash flow projections, together with the advanced status of negotiations with the Group's key lenders, the Directors of the Company have a reasonable expectation that the Company will be able to meet its liabilities as they fall due for the foreseeable future.

On this basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. No adjustment which would result from a change in the going concern basis of preparation has been included in the financial statements.

## 1d. Valuation of investment properties and investment properties under development

REO's principal assets comprise investment properties and investment properties under development, located in Ireland and the UK, which are being carried in the financial statements at fair value.

As previously indicated in the Group's June 2009 Interim Management Report, the Group has commissioned Treasury Holdings, in its capacity as Group Investment Adviser, to undertake these valuations for the interim period only using assumptions, and exercising certain judgements, based on market conditions as at 31 August 2010. Shareholder attention is drawn to the Investment Adviser's Report in REO plc's interim results for further details.

## 2. Trade and other receivables – non current

*In thousands of pounds sterling*

	<b>31 August 2010 unaudited</b>	<b>28 February 2010 audited</b>
Amounts due by parent undertaking	-	122,119
	-	122,119

## 2a. Trade and other receivables - current

*In thousands of pounds sterling*

	<b>31 August 2010 unaudited</b>	<b>28 February 2010 audited</b>
Amounts due by parent undertaking	127,537	-
	127,537	-

The amount due from parent undertaking is due for repayment in May 2011.

## 3. Called –Up Share Capital

	<b>31 August 2010 unaudited £</b>	<b>28 February 2010 audited £</b>
<b>Authorised</b>		
1,000 ordinary shares of £1	1,000	1,000
60,000,000 Zero Dividend Preference (ZDP) Shares of £0.00001	600	600
	1,600	1,600
<b>Allotted, called up and paid in full</b>		
2 ordinary shares of £1	2	2
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	578
	580	580
<b>Presented as debt</b>		
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	578
<b>Presented as Equity</b>		
2 ordinary shares of £1	2	2
	580	580

On 18 February 2008 the Company was listed on the London Stock Exchange and 57,755,782 new ZDPs were issued at 0.001p per new ZDPs. These new ZDPs were issued on a one for one basis in exchange for the cancelled ZDPs in REO, the holding company of REO Securities Limited.

# Notes to the interim financial statements

(continued)

## 3. Called –Up Share Capital (continued)

Rights attaching to the ZDPs and the Ordinary shares:

(a) As to dividends:

- the Ordinary Shares carry the right to receive the profits of the Company (including accumulated revenue reserves) available for distribution and determined to be distributed by way of interim and/or final dividend.
- the ZDPs carry no right to receive dividends out of the revenue or any other profits of the Company.

(b) As to winding-up, after the payment of the Company's liabilities in full:

- the holders of the Ordinary Shares are entitled to the surplus assets of the company available for distribution.
- the holders of the ZDPs are entitled to an amount equal to 100p per ZDPs as increased each day from 22 June 2001 up to and including 31 May 2011 at the daily compound rate, which results in a fixed entitlement of 235.51p on 31 May 2011.

(c) As to voting:

- the ordinary shareholders have the right to vote at general meetings of the Company and each shareholder present shall have 1 vote in respect of each share held.
- the ZDP shareholders shall not have the right to attend or vote at any general meeting of the Company unless the business of the meeting includes any resolution to vary, modify or abrogate any of the special rights attached to the ZDPs, or any resolution to wind up the Company. At any meeting when such business is to be conducted, such holders shall be entitled to vote in relation to that business only. When entitled to vote, each holder present, in person or proxy, shall have 1 vote in respect of each share held.

## 4. Retained Earnings

*In thousands of pounds sterling*

	31 August 2010 unaudited	28 February 2010 audited
At 1 March 2010	-	-
Result for the period	-	-
Balance at 31 August 2010	-	-

## 5. Non current Liabilities

*In thousands of pounds sterling*

	31 August 2010 unaudited	28 February 2010 audited
Zero Dividend Preference Shares	-	122,119
	-	122,119

## 5a. Current Liabilities

*In thousands of pounds sterling*

	31 August 2010 unaudited	28 February 2010 audited
Zero Dividend Preference Shares	127,537	-
	127,537	-

The Zero Dividend Preference Shares are due to be repaid on 31 May 2011 or earlier on winding up of the Company. Based on the outcome of negotiations with ZDP holders it is anticipated that this liability will not crystallise in a cash outflow for the Company.

## 6. Financial Income/ (Expense)

*In thousands of pounds sterling*

	Period ended 31 August 2010 unaudited	Period ended 30 June 2009 unaudited
Income on REO intercompany advance	5,418	4,820
Interest in respect of zero dividend preference shares	(5,418)	(4,820)
<b>Net finance expense recognised in income statement</b>	<b>-</b>	<b>-</b>

## 7. Taxation

In accordance with the Income Tax (Jersey) Law 1961 the income tax rate for companies in Jersey was reduced from 20% to 0% with effect from 3 June 2008. Exempt company status for all new companies was abolished. The Company's 2008 exempt company status remained in place until 31 December 2008. On 1 January 2009 the Company moved to a 0% rate of income tax and accordingly income, other than Jersey source income (excluding bank deposit interest), is taxed at 0%.

With effect from 6 May 2008, a 3% Goods and Services Tax ("GST") was introduced under the Goods and Services Tax (Jersey) Law 2007. The Company may apply for an exemption under the Goods and Services Tax (International Service Entities) (Jersey) Regulations 2008 on payment of an annual fee of £100. The Company has been granted international service entity status for the period ended 2010.

## 8. Earnings per share

*In thousands of pounds sterling, except shares*

	Period ended 31 August 2010 unaudited	Period ended 30 June 2009 unaudited
<b>Basic Earnings per Share</b>		
Loss attributable to equity holders	-	-
<b>Weighted average number of Ordinary Shares</b>	<b>2</b>	<b>2</b>
<b>Basic loss per Ordinary Share (£'000)</b>	<b>-</b>	<b>-</b>

## 9. Group Membership

The Company is a wholly owned subsidiary of Real Estate Opportunities plc., a company incorporated in Jersey. The consolidated financial statements of Real Estate Opportunities plc. may be obtained from Ogier Fund Administration (Jersey) Limited, Ogier House, The Esplanade, St Helier, Jersey JE4 9WG.

## 10. Related Party Disclosures

REO Securities Limited was incorporated for the purpose of facilitating a scheme of arrangement to cancel the Zero Dividend Preference (ZDPs) shares in REO and to issue the new ZDPs in REO Securities Limited on a one for one basis to the existing shareholders of REO.

This transaction completed in February 2008. Although the new ZDPs are entitled to a pre-determined capital repayment on the ZDP Repayment Date, being the 31 May 2011, this is not guaranteed. The rights of the new ZDPs are substantially similar to the rights of the ZDPs in REO which were cancelled as part of the scheme of arrangement.

In order for the Company to have sufficient assets to repay the ZDPs, REO and the Company previously entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of REO will effectively be made available to meet the repayment entitlement of the ZDPs on the repayment date, 31 May 2011.

# Notes to the interim financial statements

(continued)

## 10. Related Party Disclosures (continued)

Pursuant to the Undertaking Agreement, REO agrees to contribute to the Company (by way of gift, capital contribution or otherwise) such an amount as will result in the Company having sufficient assets to satisfy the then current or, as the case may be, final capital entitlement of the ZDPs on the Repayment Date or any earlier winding up of the Company.

The related party transaction referred to above was made on an arms length basis.

## 11. Subsequent Events

As highlighted in the Chairman's Statement, there have been a number of significant post balance sheet events in REO and REO Securities Limited since the period end which include;

- REO has renegotiated the loan facilities relating to Battersea Power Station with both Lloyds Banking Group and NAMA extending the existing facility to 31 August 2011 and waiving all outstanding breaches subject to certain conditions.
- As noted in the Chairman's Statement, the Group has reached outline agreement with the holder of the OLN and an ad hoc informal committee of holders of both the CULS and ZDPs (together the "Committee") on the terms of a financial restructuring of REO which will also enable the demerger of the Battersea Power Station. The terms of the financial restructuring includes the deferral of all principal and interest payments due on the OLN until 31 May 2011 and are subject to the Group meeting the key milestones outlined in the Chairman's Statement. The proposals with the Committee involve an equitisation of the CULS and ZDPs into equity of the demerged Battersea Power Station subsidiary and REO.

# Independent Review Report to REO Securities Limited

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2010 which comprises the condensed statement of financial position, condensed interim statement of comprehensive income, condensed statement of changes in equity, condensed interim statement of cashflows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ("the TD Regulations") and the Disclosure and Transparency Rules of the UK's Financial Services Authority ("the FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Disclosure and Transparency Rules of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 August 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Disclosure and Transparency Rules of the UK FSA.

## Emphasis of matter – going concern and valuation of investment properties and investment properties under development

In forming our conclusion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the condensed financial statements concerning:

- (i) the impact of current market conditions on the Company's ability to continue as a going concern and
- (ii) the method of valuation of the REO's investment properties and investment properties under development.

The Company and its parent previously entered into an arrangement whereby the net assets of REO will be made available to meet the repayment entitlement of the ZDP shares on the repayment date, 31 May 2011. As set out in note 1 there are a number of material uncertainties which may cast doubt on the ability of REO to continue as a going concern. These matters include the approval by the National Asset Management Agency ('NAMA') of the REO's business plan, the renewal of existing borrowing facilities, the deferral of interest and restructuring of capital payments on financial instruments, the receipt of planning permission on the REO's Battersea property, the restructuring of the REO's investment in Battersea and the expectation that the REO will raise capital subsequent to the renegotiation of its debts and the restructuring of its interest in the Battersea property. While the ultimate outcome of these matters cannot be assessed with certainty at this time, the Directors are of the opinion that, based on the current stage of discussions with the various involved parties, it is appropriate to prepare the condensed financial statements on the going concern basis.

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*(continued)*

**Emphasis of matter – going concern and valuation of investment properties and investment properties under development**  
*(continued)*

The condensed financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

REO's principal assets comprise investment properties and investment properties under development, located in Ireland and the UK, which are being carried in the financial statements at market value. Given the materiality of these amounts and the inherent subjectivity in such valuations, we draw your attention to note 1 to the condensed financial statements, which highlights that these valuations have been carried out solely by the Directors using assumptions, and exercising certain judgements, based on market conditions as at 31 August 2010.

Sean O'Keefe

**For and on behalf of KPMG**

Chartered Accountants

Registered Auditor

Dublin, Ireland

27 October 2010



# REO SECURITIES LIMITED

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