

26 March 2009

## REAL ESTATE OPPORTUNITIES LIMITED

### FINAL RESULTS FOR THE YEAR TO 31 DECEMBER 2008

Real Estate Opportunities Limited ('REO' or the 'Company'), a property company listed in London, Dublin and The Channel Islands with an established investment and development property portfolio in Ireland and the UK, today announces its final results for the year to 31 December 2008.

#### Highlights

- Period end independent valuations for the portfolio were £1,910 million at 31 December 2008, representing a reported increase of 8 per cent year on year. This reported increase in the 31 December 2008 portfolio valuation is due to a significant uplift from the strength of the euro during the period which offset a revaluation decrease, after capitalised costs, of 16 per cent across the portfolio year on year.
- Diluted European Public Real Estate Association ("EPRA") net asset value ("NAV") per share of 104.1p, which represents a decrease of 28 per cent year on year from 143.9p as at 31 December 2007 and 22 per cent from 134.2p since 30 June 2008.
- Since June 2008, the Company has successfully renewed £112 million of debt due for repayment in 2008.

Ray Horney, Chairman of REO, commented:

*"The Company maintains its long term perspective, and its strategic approach to the cycle has and will continue to position the business favourably when markets begin to stabilise. The Board believes that, through intensive asset management and its strategic longer term development pipeline, REO is positioned to weather the current market turmoil and to move forward once conditions improve."*

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

The current difficult economic climate is a testing one for all businesses. Property values are under pressure following the upheaval in the banking sector. This, in turn, is impacting the banks' capacity to provide debt finance and, more particularly, their ability to respond in a timely manner to facility renewals.

Despite these difficult circumstances, the Board is convinced that the long followed strategy of investing in superior quality assets that attract blue chip tenants and underpin the value of the Company's property portfolio will bear the Company in good stead. It is already proving an advantage as the Company continues negotiations concerning its short to medium term financing requirements.

As at 31 December 2008, the total property portfolio value was £1,910 million (2007: £1,776 million), representing a reported increase year on year of 8 per cent and an increase of 3 per cent compared to the June 2008 valuation. This reported increase in the 31 December 2008 portfolio valuation is due to a significant uplift from the strength of the euro during the period which offset a revaluation decrease after capitalised costs of 16 per cent across the portfolio year on year. REO's UK portfolio, which includes Battersea Power Station, saw a revaluation decline after capitalised costs of 20 per cent in the year to 31 December 2008, while the Ireland investment and development portfolio values declined by 15 per cent since 31 December 2007 after capitalised costs.

This has resulted in a Diluted EPRA Net Asset Value (NAV) per share of 104.1p, a reduction of 28 per cent year on year from 143.9p at 31 December 2007 and a decrease of 22 per cent from the 134.2p recorded at 30 June 2008.

### **Business Activity**

Although we remain extremely cautious about the outlook for the overall property market in Ireland and the UK, REO will maintain its long term focus to support its objective of outperforming the market through the current property cycle.

The Ireland investment and development property portfolio was revalued downwards by 15 per cent in the 12 months to December 2008 after capitalised costs. This decrease compares favourably with the SCS IPD Property Index (which shows 12 month market decline of 37 per cent<sup>(1)</sup>), reflecting the quality of the assets and tenant base and the resilient nature of the Company's portfolio overall in an extremely challenging external environment. This is also due to the diversity of the REO investment and development portfolio. Revaluation movements on individual assets largely ranged from an increase of 25 per cent to a decline of 40 per cent in the 12 months to December 2008.

Certain property valuation movements deserve particular mention. Clonburris grew its value by 25 per cent based on the strength of a rezoning of the area to Strategic Development Zone (SDZ) status and the opening of a new commuter train station. Stillorgan Shopping Centre increased in value by 4 per cent benefiting from increases in rents during the year which contributed to stemming the overall portfolio valuation decline.

The development portfolio, which accounts for 50 per cent of the total portfolio by value, made significant progress during the period. The Company successfully secured planning permission on a number of key development projects during the period including Ballymun Shopping Centre (progressing through appeals process) and No.1 Central Park.

The iconic Battersea Power Station project progresses towards submission of planning permission in 2009 and I refer you to the Investment Adviser's Review for further detail on progress in relation this development.

The excellent performance of China Real Estate Opportunities plc ("CREO") in which REO has a 17.6 per cent shareholding is evident in its recently announced Diluted EPRA net asset value per share of £13.24. This represented an increase of 59 per cent year on year and 36 per cent since June 2008 driven by an underlying increase in the asset values of 6 per cent and the strength of the Chinese

yuan against sterling. In addition, CREO is well positioned with gearing of 45% on its investment portfolio and no immediate facility renewals. The growth in net asset value per share led to an increase in the value of REO's investment to £85 million for the year. Although the share price of CREO is at a significant discount to NAV in the current market climate, the Board remains confident about the underlying values of the assets and the long term growth of the business.

## **Financing**

The Board's priority is to safeguard the Company's financial position in the current market environment. Despite the difficulties currently experienced in the banking sector with debt write offs and capitalisation issues leading to scarce availability of credit, the Company has successfully renewed its debt commitments due in the period and continues to operate within its LTV (loan to value) loan covenants. Since June 2008, the Company has successfully renewed £112 million of debt due in 2008.

During the period the Company secured an increase of £40 million in the existing £185 million Battersea Power Station debt facility and the extension of the term of this facility from December 2009 to March 2011. The additional funds will be used to finance the costs of the Battersea Power Station planning application which is due to be lodged later this year.

In addition, the Company secured an increase of €50 million in an existing loan facility, secured against REO's income producing investment portfolio in Ireland. This facility matures in 2013.

Loans amounting to £441 million and £197 million mature during 2009 and 2010 respectively. The majority of loans due for repayment in 2009 are due at the end of the year and we remain confident about reaching agreement on their renewal on broadly similar terms. It is not expected that there will be significant new facilities agreed during 2009 but sufficient cash does exist to progress certain development sites towards planning permission.

The Company has prepared a detailed financial plan to 31 December 2010 and the key assumptions made in that forecast include the renewal or roll over of the loans due in 2009 and 2010 and the completion of one of a number of transactions which are presently being explored. On this basis, the Board has reviewed the cash requirements for the business and, as long as current market and business conditions prevail, believes that there is adequate working capital to fulfill the needs of the business for the foreseeable future.

## **Dividends**

It is not proposed that dividends will be paid on the ordinary shares for the year.

## **Outlook**

2008 has seen an unprecedented period of global economic challenges and market volatility. As we expect this to continue during 2009, we will maintain our strategy of managing the portfolio intensively, focusing tightly on managing cash resources while retaining a cautious outlook.

Undoubtedly there are risks. The banking sector has not yet reached a stable platform from which to open its doors and generate confidence. Indeed the Irish government is grappling with the need for fresh economic and taxation policies. Further, indications are that valuations are likely to decline in 2009 placing additional pressure on covenant compliance. However, the Company remains confident about its ability to renegotiate covenants with its banks if required. In addition, the Company is focussed on its management of costs and cash across the group.

However, the Company maintains its long term perspective, and its strategic approach to the cycle has and will continue to position the business favourably when markets begin to stabilise. The Board

believes that, through intensive asset management and its strategic longer term development pipeline, REO is positioned to weather the current market turmoil and to move forward once conditions improve.

Ray Horney  
Chairman

26 March 2009

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## Investment Adviser's Report

### Valuation methodology

Each of the external valuers have been required to reconsider their valuation approach with transactions few and far between creating an abnormal market environment. They have sought to use their market knowledge and professional judgement to endeavour to eliminate the effects of volatility rather than rely totally on negative market sentiment. Full detail on the valuation methodology applied to the REO properties is provided in Note 4.

### Highlights in the period

#### Business Activity

Table 1:

Valuation by Sector £ million	Total value	Per cent of total portfolio value	6 month revaluation change (after capitalised costs and at constant currency)	Year on year revaluation change (after capitalised costs and at constant currency)
Offices: Ireland	515	27%	-16%	-14%
Retail: Ireland	327	17%	-9%	-11%
Residential: Ireland	57	3%	-24%	-28%
Development: Ireland	557	29%	-9%	-16%
UK	454	24%	-15%	-20%
<b>TOTAL</b>	<b>1,910</b>	<b>100%</b>	<b>-13%</b>	<b>-16%</b>

### Investment portfolio

The REO investment portfolio represents 50 per cent of the Company's overall property portfolio by value and the Irish investment portfolio is 62 per cent of the total Irish portfolio; it is over 1.54 million square metres in size and includes over 100 occupiers. In the short term, the Irish market is experiencing a sharp slowdown following years of strong growth and high demand. As highlighted at the time of the Company's interim results, recognising the relatively early signs of overheating in the market last year, REO adopted a cautious approach to its portfolio and focussed on consolidating its strong position in the market while also intensifying its strategy of targeting growth from the existing investment portfolio through active asset management and the retention of its high quality tenant base. This is a strong portfolio of buildings with an annualised rent roll of £39 million which has grown by 8 per cent from 2007.

Although the global financial crisis has contributed to the slowdown in the Irish market, the benefits of this strategy are seen in the relative performance of the Ireland investment portfolio, which showed an underlying valuation decline of 14 per cent, derived from a 14 per cent decline in office values and a 11 per cent fall in retail values in the year to 31 December 2008, significantly outperforming the market during the period. The investment portfolio continued to perform well owing to its prime office and retail locations and broad tenant base which deliver a solid income stream. The REO tenant mix ranges across a number of sectors, with blue chip occupiers such as Vodafone, KPMG and Marks & Spencer

accounting for a significant proportion of the rent from the portfolio. Portfolio occupancy remains at over 95 per cent and rental weighted average lease length is 12 years. The Company actively monitors major tenants progress and currently there are no indications of material tenant defaults.

As previously advised, REO's strategic emphasis continues to be focussed on the settlement of rent reviews and the Company settled 19 rent reviews in the year achieving an average increase of over 19 per cent compared with previous rents and an average of over 8 per cent above the Estimated Rental Values previously assumed by the Company's valuers. This highlights the strength and resilience of the Irish investment portfolio. Rent reviews which took place on Russell Court and Mespil Road in the office sector of the investment portfolio mitigated valuation declines somewhat in the period. The upward rent reviews in Stillorgan during the period contributed to a valuation increase of 4 per cent, against an overall market decline in the Irish retail sector.

Table 2:

	Occupancy	Rent reviews	Average rental increase above passing rent	Average rental increase above ERV
Office	99%	7	18%	7%
Retail	95%	12	24%	15%
TOTAL PORTFOLIO	96%	19	19%	8%

During the second half of the year, REO disposed of its interest in Northside Shopping Centre, Dublin for €29.75 million, representing a 60 per cent uplift over the property's valuation in the June 2008 accounts.

### Development Portfolio

In spite of current market conditions, REO continues to see long term demand and growth in the commercial property sector and the timing of completions within its development portfolio has been structured to reflect this market cycle. Little development is due for completion in the next 18 months and there is appropriate flexibility on start dates. The focus of the business is therefore centred on the delivery of development projects after 2011. The Company is actively pursuing appropriate planning permissions as well as working towards submitting planning applications in due course for various projects.

There are only two developments currently under construction. Number 1, Central Park, Dublin 18, a 17,650 square metre office development, is expected to be completed in 2009 (excluding fit out until a pre-letting is secured). Montevetro, on Barrow Street, Dublin 4 (19,500 square metres) is expected to be completed in late 2010. The Montevetro office development is 50 per cent pre-funded while letting campaigns on both developments have recently been launched and there are early indications of potential occupier interest.

Progress on the development pipeline planning applications in the period include:

- **Ballymun Shopping Centre:** In October, the Company lodged a planning application to develop 'Ballymun Town Centre', an €800 million mixed use development in the heart of the Ballymun regeneration area in North Dublin. The proposed new town centre is on a 5.9 hectare site. The development is strategically located in the heart of North Dublin and has easy access to the airport, Dublin City Centre and the M50, M1 and M2 motorways. It is at the heart of the economic corridor between Dublin Airport and Dublin City Centre, while a Metro station on the planned Metro North line will also be integrated into the development. In addition, the town centre will only be a short distance from the only IKEA store in the Republic of Ireland which is opening in July 2009. The proposed development will comprise over 60,000 square metres of retail

space, 27,883 square metres of office space and over 11,000 square metres of leisure facilities. Planning permission was granted in December 2008 (and is subject to appeal)

- Clonburris, Clondalkin: Following its designation as a Strategic Development Zone, the masterplan for this area was given approval by An Bord Pleanála in November 2008. REO has assembled a design team with a view to lodging a full planning application for the development of a major town centre facility (Gross Floor Area: 237,000 square metres) on the Company's land and this process is now underway.

Although the general trend of valuations of properties within the development portfolio have been downwards, the effect of falls in market values has been mitigated within the portfolio as a whole with some sites showing increased valuations. The value of Clonburris grew by 25 per cent based on the strength of a rezoning of the area to Strategic Development Zone status and confirmation that a train station will be sited there.

### **Battersea Power Station:**

The Company's principal UK development, Battersea Power Station, deserves special mention as significant progress was made in 2008. Following the public launch of the development masterplan in June 2008, plans have progressed well with consultation continuing throughout the second half of the year with The London Borough of Wandsworth and statutory consultees such as the Greater London Authority, the Mayor of London, English Heritage, the Commission for Architecture and the Built Environment and the Government Office for London. Their views have been taken into account in framing the design of the development resulting in an improved scheme. These plans include the important proposal for the extension of the Tube network to Battersea.

The scheme was also presented to a substantial number of members of the public with over 15,000 visitors to the public exhibition at the site, over two thirds of whom were supportive of the scheme. Feedback on this extensive consultation process has been incorporated into an enhanced scheme design.

Good progress continues to be made towards submitting the formal planning application in 2009 and achieving anticipated transport improvements in the area. This progress has helped to offset the negative effects of the market environment such that the valuation has reduced from £450 million at 31 December 2007 to £406 million at 31 December 2008, representing a revaluation decline of 18 per cent after allowing for capitalised costs.

## **Economic Commentary**

### ***Irish economic commentary***

As the effects of the international financial and banking crisis and a worldwide recession deepened throughout 2008, the Irish economy began to suffer from the aftermath of a large housing and construction boom which had resulted in a period of sustained growth. The crisis in financial markets prompted the Irish Government to initiate a number of packages to maintain financial stability, including a €400 billion guarantee to safeguard deposits and borrowings of four major Irish banks and two building societies in September. Further recent Government initiatives include the planned investment of €7 billion in the country's biggest banks and building societies. It is hoped that these initiatives will go some way to stabilising the financial sector and ease the availability of credit and encourage flow of funds to the economy, restoring confidence domestically and internationally. In addition, the ECB has cut interest rates cumulatively by 200 basis points in recent months which will also contribute to enhanced affordability through lower mortgage and borrowing costs.

The downturn in the Irish economy gathered pace during the year driven by a range of factors including a significant slowdown in residential construction output in 2008 which is set to continue.

Consensus estimates assume output levels will fall further in 2009. The speed with which the decline has occurred has led to a sharp drop in consumer confidence and expenditure, a rise in unemployment and falling GDP.

## **Irish Property Market**

**Office:** The Dublin Office market had a mixed performance in 2008. The first six months of the year saw similar levels of activity to that of the 2007 peak year in terms of take-up. However, sentiment deteriorated rapidly in the second half of the year as the credit crunch intensified alongside a marked economic slowdown. As a result, office take-up stagnated, resulting in a level of approximately 160,000 square metres take-up recorded for the whole year, down 40 per cent compared to 2007<sup>(2)</sup>. As market transactional activity weakened, new supply in 2008 and the release of second hand space back onto the market has increased city centre vacancy rates to 10 per cent and overall Dublin vacancy to 16 per cent in the final quarter of 2008<sup>(2)</sup>. New Dublin office supply in the next two years will be very modest as output has been reduced significantly in the last 12 months. This will help the market move towards equilibrium in the medium term.

**Retail:** The Irish retail market also experienced a sharp decline in performance in the second half as economic conditions deteriorated and consumer spending fell. Latest published data reported a year on year decline in spending volumes of 9 per cent in December sales in retail sectors have been mixed and those sectors linked to housing have been most adversely affected and are indicative of the falloff in residential construction<sup>(3)</sup>. The short term outlook for retail sales is poor, putting significant pressure on retailers. As a result, a number of retail location decisions and expansion plans have been postponed in the short-term. However, some new entrants are still expected in the Irish market in 2009 and there are a number of international retailers, predominantly US and European, that still are interested in locating in the Irish market but are very location specific.

## **Financial Review**

The Company has adopted International Financial Reporting Standards (IFRS) for the first time in 2008. The full effect of the changes associated with the reported financial position, performance and cash flows is set out clearly in the notes to the financial statements under "Explanation of transition to IFRS's".

Property income amounted to £32 million in the year to 31 December 2008, representing a significant increase from £20 million in the prior year period due to the benefit from the strength of the euro, the inclusion of 12 months rental income from Havenview Investments Limited and the additional 8 property companies purchased from Treasury Holdings in 2007 and the completion of a number of upward rent reviews in the period. After valuation losses and operating expenses, reported operating loss was £265 million. Net financial expenses increased to £121 million in the period, broadly driven by the negative movement in the fair value of financial derivatives of £76 million. After accounting for the Company's share in CREO's after tax loss, this resulted in a REO loss after taxation of £371 million for the period.

The value of the portfolio as at 31 December 2008 amounted to £1,910 million, a reported increase of 8 per cent year on year which benefited from the strength of the euro against sterling, offset by a revaluation deficit after capitalised costs of 16 per cent year on year.

This has resulted in a Diluted EPRA Net Asset Value (NAV) per share of 104.1p, a reduction of 28 per cent year on year from 143.9p at 31 December 2007 and a decrease of 22 per cent from the 134.2p recorded at 30 June 2008.

The environment for generating and renewing financing facilities in the Group has changed markedly in the last twelve months. However, despite the difficulties currently experienced in the banking sector,

the Company has successfully renewed its debt commitments due in the period and continues to operate within its LTV covenants.

Specifically, during the period the Company secured an increase of £40 million in the existing £185 million Battersea Power Station debt facility and the extension of the term of this facility from December 2009 to March 2011. The additional funds will be used to finance the costs of the Battersea Power Station planning application which is due to be lodged later this year.

In addition, the Company secured an increase of €50 million in an existing loan facility, secured against REO's income producing investment portfolio in Ireland. This facility matures in 2013.

Loans amounting to £441 million and £197 million mature during 2009 and 2010 respectively. The majority of loans due for repayment in 2009 are due at the end of the year and the Company remains confident about reaching agreement on their renewal on broadly similar terms. It is not expected that there will be significant new facilities agreed during 2009 but sufficient cash does exist to progress certain development sites towards planning permission.

The overall debt level of £1,504 million, including loan notes and excluding Zero Dividend Preference Shares and Convertible Unsecured Loan Stock, equates to an LTV ratio of 79 per cent. 98 per cent of the Company's debt is on fixed rates and weighted average cost of secured debt is 5.7 per cent per annum. In the event that there is a further decline in property values which would reduce the Group's NAV and could result in breaches in the Group's banking covenants, it is assumed that the existing bank facilities will remain in place and be renewed in such an environment, consistent with recent experience.

The Company has prepared a detailed financial plan to 31 December 2010 and the key assumptions made in that forecast include the renewal or roll over of the loans due in 2009 and 2010 and the completion of one of a number of transactions which are presently being explored. On this basis, the Board has reviewed the cash requirements for the business and as long as current market and business conditions prevail, believes that there is adequate working capital to fulfill the needs of the business for the foreseeable future.

There are capital commitments within the business of £89 million which are largely related to the continuing construction of existing developments in Central Park and Montevetro, both of which are in Dublin. These projects have already secured committed bank facilities.

(1) Source: SCS/IPD Irish Quarterly Property Index: Q4 2008

(2) CBRE Market View Dublin Offices Q4 2008

(3) Central Statistics Office, February 2009

## **PRINCIPAL RISKS & UNCERTAINTIES**

The Board and management of the company take considerable effort to assess the critical risks and uncertainties that face the business and in seeking ways of mitigating those risks.

Such risks and uncertainties are as follows:

1. Economy: the general macro environment remains difficult with both the UK and Ireland suffering from declining asset values, increasing budget deficits and rising unemployment. Lower interest rates have been put in place to reassure the markets and generate confidence. The global economic crisis has resulted in declines in the Company's asset values and may impact on the ability to finance future developments on favourable terms.
2. Financial sector - general: Within the world's economies, the financial sector has suffered more than most. It is critical that the banks determine the level of potential bad debts, complete the recapitalisation process and revert to a stable footing of lending once again on a commercial basis in order to restore confidence to companies and individuals alike.
3. Financial sector – lenders: To date, the banking sector has proven more difficult to negotiate with than heretofore in that discussions are taking longer and the facility periods are now shorter. However, rollovers and renewals continue to be completed and existing and new facilities are being renewed and secured. Nevertheless, a revision to the bank's strategy involving a tightening of their credit policies would increase risk by placing substantial strain on the Company's Balance Sheet.
4. Property valuations: Properties have declined in value during 2008 and the expectations are that this will continue during 2009. Further reductions in the gross valuations could lead to the net asset value reducing further. This would clearly cause concern to the markets. Investment properties are underpinned by their excellent locations, tenants and quality facilities as well as the rental income that supports the interest on the debt. Development properties are not supported by a rental income flow and, as a consequence the focus of the management team is on adding value through planning permission and keeping costs to a minimum while the current market conditions prevail.
5. Recoverability of Investment in Associate: The Group has an investment in its associate company, China Real Estate Opportunities Limited which is accounted for under the equity method of accounting at the underlying net asset values of that company which at 31 December 2008 was £85 million. The market value of the groups investment in CREO at 23 March 2009 was £16.5 million. The Board believes that the net assets are a reasonable reflection of the values achievable in an open market.
6. Future cash flows: We have bank facilities that are due to expire in 2009 and 2010 amounting to £441 million and £197 million respectively. We are relying on the banks to renew and rollover these facilities on broadly similar terms. Failure to do so would have a material adverse consequences for us. In addition in preparing the cash flow forecasts we expect to raise between £15 million and £20 million through the completion of a transaction to support the working capital requirements over the next 18 months. Failure to complete the anticipated transaction could have material adverse consequences on our ability to meet our obligations as they fall due.
7. The general economic environment is affecting all sectors. Although the tenants of REO are largely of a high quality, blue chip nature, failure of those businesses or excessive pressure on rentals would affect cash flow and future valuations.

## **Approval of Preliminary Announcement**

The financial information contained in this preliminary announcement are not the statutory financial statements of the company, drawn up in accordance with the Companies (Jersey) Law 1991 (as amended). The directors approved the preliminary announcement in respect of the financial year ended 31 December 2008 on 25 March 2009.

We understand that our auditors, KPMG, will be drawing attention as an emphasis of matter without qualifying their report with regards to the disclosures in note 2(a).

## Consolidated and Company Balance Sheet At 31 December

In thousands of pounds sterling

	Note	2008 Group	2007 Group	2008 Company	2007 Company
<b>Assets</b>					
Investment properties	4	946,920	922,661	-	-
Investment properties under development	4	963,262	853,777	-	-
Investment in subsidiary undertakings	8	-	-	296,800	301,262
Investment in associate	6	85,309	54,832	30,711	30,711
Trade and other receivables	7	6,855	7,618	-	-
Derivative financial instruments		273	10,357	-	-
Deferred tax assets	13	5,818	-	-	-
Other investments – available for sale	9	190	586	190	586
Restricted cash	10	12,788	-	-	-
<b>Total non-current assets</b>		<b>2,021,415</b>	<b>1,849,831</b>	<b>327,701</b>	<b>332,559</b>
Trade and other receivables	7	20,785	24,561	255,346	283,633
Cash and cash equivalents	10	55,503	76,386	437	1,379
Restricted cash	10	26,067	733	-	-
<b>Total current assets</b>		<b>102,355</b>	<b>101,680</b>	<b>255,783</b>	<b>285,012</b>
<b>Total assets</b>		<b>2,123,770</b>	<b>1,951,511</b>	<b>583,484</b>	<b>617,571</b>
<b>Liabilities</b>					
Interest-bearing loans and borrowings	12	1,271,062	1,250,611	248,894	352,079
Trade and other payables	14	3,749	7,187	113,163	6,324
Derivative financial instruments		39,260	922	-	-
Deferred tax liabilities	13	140,150	129,290	-	-
<b>Total non-current liabilities</b>		<b>1,454,221</b>	<b>1,388,010</b>	<b>362,057</b>	<b>358,403</b>
Interest-bearing loans and borrowings	12	440,633	99,607	1,531	-
Trade and other payables	14	55,409	48,524	70,374	87,564
Derivative financial instruments		23,985	372	-	-
<b>Total current liabilities</b>		<b>520,027</b>	<b>148,503</b>	<b>71,905</b>	<b>87,564</b>
<b>Total liabilities</b>		<b>1,974,248</b>	<b>1,536,513</b>	<b>433,962</b>	<b>445,967</b>
<b>Net assets</b>		<b>149,522</b>	<b>414,998</b>	<b>149,522</b>	<b>171,604</b>
<b>Equity</b>					
Issued share capital	15	3,338	3,338	3,338	3,338
Share premium	15	1	405,747	1	405,747
Redemption reserve	15	1,480	1,480	1,480	1,480
Other reserve	15	17,424	12,582	-	-
Currency reserve	15	143,431	41,901	-	-
Property revaluation reserve	15	7,243	3,796	-	-
Retained (losses) / profits	15	(22,533)	(60,183)	144,703	(238,961)
<b>Total equity attributable to equity holders of the parent</b>		<b>150,384</b>	<b>408,661</b>	<b>149,522</b>	<b>171,604</b>
<b>Minority interest</b>	15	<b>(862)</b>	<b>6,337</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>149,522</b>	<b>414,998</b>	<b>149,522</b>	<b>171,604</b>
<b>Net Asset value per Ordinary Share</b>					
Basic (pence)	5	45.1	122.4		
Diluted (pence)	5	45.1	117.2		
Diluted EPRA (pence)	5	104.1	143.9		

## Consolidated and Company Income Statement For the year ended 31 December

<i>In thousands of pounds sterling</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
Property income	16	32,137	20,062	-	-
Valuation (losses) / gains on investment properties and on investment properties under development	4	(281,988)	23,175	-	-
Profit on disposal of investment property under development	4	1,445	3,577	-	-
Profit on disposal of asset	24	-	5,708	-	5,708
Management fee	18	(3,447)	(13,236)	-	(11,171)
Operating expenses	19	(13,909)	(12,128)	(2,757)	(7,596)
Other income	17	1,147	53,195	204	52,489
Provision against carrying value in subsidiaries	8	-	-	(5,136)	-
<b>Net operating (loss) / profit before net financing expense</b>		<b>(264,615)</b>	<b>80,353</b>	<b>(7,689)</b>	<b>39,430</b>
Financial income	20	10,785	13,286	28,944	968
Financial expenses	20	(132,145)	(50,076)	(38,331)	(20,568)
<b>Net financing expense</b>		<b>(121,360)</b>	<b>(36,790)</b>	<b>(9,387)</b>	<b>(19,600)</b>
Share of (loss) / profit of associate	6	(16,683)	6,802	-	-
Share of profit of joint venture	11	-	11,009	-	-
<b>(Loss) / profit before tax</b>		<b>(402,658)</b>	<b>61,374</b>	<b>(17,076)</b>	<b>19,830</b>
Income tax credit / (expense)	21	31,978	(10,928)	-	-
<b>(Loss) / profit for the year</b>		<b>(370,680)</b>	<b>50,446</b>	<b>(17,076)</b>	<b>19,830</b>
<b>Attributable to:</b>					
Equity holders of the parent		(363,090)	50,486	(17,076)	19,830
Minority interest		(7,590)	(40)	-	-
<b>(Loss) / profit for the year</b>		<b>(370,680)</b>	<b>50,446</b>	<b>(17,076)</b>	<b>19,830</b>
<b>(Loss) / profit per Ordinary Share</b>					
Basic (pence)	22	(108.8)	19.1	-	-
Diluted (pence)	22	(108.8)	15.9	-	-

All results were derived from continuing operations.

## Consolidated and Company Statement of Recognised Income and Expenses For the year ended 31 December

<i>In thousands of pounds sterling</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
<b>Group</b>			
Foreign exchange translation differences	15(b)		
– attributable to shareholders		62,659	40,960
– attributable to associate	6	38,871	941
– attributable to minority interest		391	606
Change in fair value of properties under development in associate	15(b)	3,447	3,796
Change in fair value of investments - available for sale	15(b)	-	(24)
Share of contribution for new equity shares in CREO	6	-	10,786
Share of other reserve movement in associate	15(b)	4,842	1,796
Net gain recognised directly in equity	15(b)	110,210	58,861
<b>(Loss) / profit for the year</b>		<b>(370,680)</b>	<b>50,446</b>
<b>Total recognised income and expense for the year</b>	15(b)	<b>(260,470)</b>	<b>109,307</b>
<b>Attributable to:</b>			
Equity holders of the parent		(253,271)	108,741
Minority interest		(7,199)	566
<b>Total recognised income and expense for the year</b>	15(b)	<b>(260,470)</b>	<b>109,307</b>

<i>In thousands of pounds sterling</i>		<b>2008</b>	<b>2007</b>
<b>Company</b>			
Net loss recognised directly in equity - available for sale	15(b)	-	(24)
<b>(Loss) / profit for the year</b>		<b>(17,076)</b>	<b>19,830</b>
<b>Total recognised income and expense for the year</b>		<b>(17,076)</b>	<b>19,806</b>
<b>Attributable to:</b>			
Equity holders of the parent		(17,076)	19,806
Minority interest		-	-
<b>Total recognised income and expense for the year</b>		<b>(17,076)</b>	<b>19,806</b>

## Consolidated Statement of Cashflows For the year ended 31 December

In thousands of pounds sterling

	Note	2008	2007
<b>Cash flows from operating activities</b>			
(Loss) / profit for the period		(370,680)	50,446
<i>Adjustments for:</i>			
Net financial expense	20(a)	121,360	36,790
Change in fair value of investment properties and investment properties under development	4	281,988	(23,175)
Profit on disposal of investment property under development	4	(1,445)	(3,577)
Profit on disposal of asset	24	-	(5,708)
Share of profit of joint venture	11	-	(11,009)
Share of loss / (profit) in associate	6	16,683	(6,802)
Income tax (credit) / expense	21	(31,978)	10,928
		15,928	47,893
Decrease in trade and other receivables		8,690	9,731
Decrease in trade and other payables		(14,669)	(25,342)
Income tax paid		(1,706)	-
<b>Net cash from operating activities</b>		<b>8,243</b>	<b>32,282</b>
<b>Investment activities</b>			
Proceeds from sale of investments		-	551
Proceeds from sale of investment property and investment properties under development		9,783	9,285
Proceeds from disposal of asset		-	10,259
Additions to investment properties and investment properties under development		(56,327)	(117,508)
Acquisition of interest in associate		-	(11,000)
Acquisition of subsidiaries (net of cash)		-	18,982
Interest received		2,788	3,289
Investment in restricted cash	10	(38,855)	(733)
<b>Cash flows from investing activities</b>		<b>(82,611)</b>	<b>(86,875)</b>
<b>Financing activities</b>			
Proceeds from bank borrowings		94,991	70,957
Proceeds from financial instruments		10,487	1,523
Repayment of bank borrowings		(2,100)	(1,504)
Repayment of 6.324% Series A and B secured loan notes		(294)	(389)
Dividends paid	15(c)	(5,007)	(6,326)
Interest paid		(57,867)	(36,206)
<b>Cash flows from financing activities</b>		<b>40,210</b>	<b>28,055</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(34,158)</b>	<b>(26,538)</b>
Cash and cash equivalents at 1 January		76,386	100,807
Effect of exchange rate fluctuations on cash held		13,275	2,117
<b>Cash and cash equivalents at 31 December</b>	10	<b>55,503</b>	<b>76,386</b>

## Notes

### 1. Reporting Entity

Real Estate Opportunities Limited (the "Company") is a property company incorporated in Jersey. The consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

### 2. Basis of Preparation

#### (a) Going Concern

At 31 December 2008 the Group had total borrowings of £1.711 billion. At that date, the Group also had cash, cash equivalents and restricted cash of £94 million and consolidated shareholders equity of £150 million. The Group has an investment and development property portfolio valued at £1.9 billion at 31 December 2008.

The Group's future operating performance will be affected by the general economic, financial and business conditions, many of which are beyond the Group's control. The Group's bank borrowings are mainly provided by financial institutions operating in Ireland and the United Kingdom. These financial institutions currently face financial difficulty and in many cases are being supported by Government. Significant deterioration in the economic environment in Ireland and the United Kingdom could have a material adverse impact on the value of our property portfolio, our shareholders equity and as a consequence on our ability to obtain longer term debt or equity financing required to meet our longer term financing and liquidity requirements beyond 2010.

The Group has prepared a financial plan for the period to 31 December 2010. The key assumptions made in preparing this plan include:

- Bank loans falling due for repayment in 2009 and 2010 of £441m and £197m respectively will be rolled over and renewed on broadly similar terms by the Company's bankers.
- In the event that there is further decline in property values which would reduce the Group's net asset value ("N.A.V") and results in breaches of the Group's banking covenants, it is assumed that the existing bank facilities will remain in place and be renewed in such an environment, consistent with our recent experience.
- The Group will realise £15 - £20 million in cash from the completion of one of a number of transactions that are currently being explored.
- No property acquisitions or disposals are assumed to occur during the period.

Based on these forecasts and the key assumptions noted above the Group has sufficient cash, cash equivalents and investments to meet its liquidity requirements for at least twelve months from the approval of the financial statements.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure to deliver on the forecast assumptions may cast significant doubt on the ability of the Group and Company 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. Nevertheless, having discussed the basis of preparation and the assumptions underlying the Group's cashflow projections together with assessing the current status of negotiations with the Group's current lenders, and assuming the rollover and renewal of expiring facilities and required further waivers are put in place within the required timescales, the Directors of the Group and Company have a reasonable expectation that the Company will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the financial statements on a going concern basis. These financial statements do not include any adjustment that would result from the going concern basis of preparation being inappropriate.

### **(b) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and effective for the year ended 31 December 2008. These are the Group's first IFRS consolidated financial statements and IFRS 1 *First-time adoption of International Financial Reporting Standards* (IFRS1) has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 27. This note includes reconciliations of equity and profit for comparative periods reported under UK GAAP (previous GAAP) to those reported for those periods under IFRSs.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2007 for the purposes of the transition to IFRSs, as required by IFRS 1.

### **(c) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments classified as available-for-sale, investment properties and investment properties under development.

### **(d) Functional and presentation currency**

The Company's functional currency is pounds Sterling. All financial information is presented in pounds Sterling, rounded to the nearest thousand, unless otherwise indicated.

### **(e) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS's requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future years.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 4 – Investment property and investment property under development
- Note 13 – Deferred tax assets and liabilities

### **3. Significant accounting policies**

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### **(ii) Associates**

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

##### **(iii) Joint ventures**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint venture entities' net assets and recognised income and expenses on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

##### **(iv) Transactions eliminated on consolidation**

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### **(v) Business combinations**

A business combination is the bringing together of separate businesses into one reporting entity, in which one entity obtains control of another entity. Control exists when the acquiring Company has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain the benefits from its activities.

On acquisition by the acquiring entity, the Group measures the identifiable assets and liabilities of the acquired entities at their fair values at the acquisition date in accordance with IFRS 3 "Business Combinations" which is known as the purchase method. From the acquisition date business combinations are accounted for as subsidiaries.

#### **(b) Foreign currency**

##### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

## **Significant accounting policies (continued)**

### **(b) Foreign currency (continued)**

#### **(ii) Financial statements of foreign operations**

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Sterling at the foreign exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

### **(c) Derivative financial instruments**

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. As the Group's derivatives do not qualify for hedge accounting they are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

### **(d) Investment property**

Investment properties are properties which are held either to earn rental income, for capital appreciation or for both. Investment properties are measured at fair value. External, independent valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (o).

If an investment property becomes owner-occupied, then it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured at fair value, and is not reclassified as property, plant and equipment during the redevelopment.

### **(e) Investment property under development**

Property that is being constructed or developed for future use as investment property is classified as investment property under development (development projects) and stated at fair value.

All costs directly associated with the purchase and construction of a property and all subsequent capital expenditures for the development qualifying as acquisition costs are capitalised. Subsequent expenditure is included in the carrying amount of the property when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property under development is accounted for as described in accounting policy (o).

## **Significant accounting policies (continued)**

### **(e) Investment property under development (continued)**

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. The capitalisation of finance costs is suspended if there are prolonged periods when development is interrupted.

### **(f) Other Investments - available for sale**

Financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss recognised directly in equity except where they are regarded as impairment losses in which case they are recognised in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date. If the market for a financial asset is not active, the Company establishes fair value by using a valuation technique for example recent arms length transactions or discounted cash flow analysis.

Financial instruments classified as held for trading or available-for-sale investments are recognised (derecognised) by the Group on the date it commits to purchase (sell) the investments (trade date accounting).

### **(g) Trade and other receivables**

Trade and other receivables are measured initially at fair value and are subsequently stated at amortised cost less impairment losses (see accounting policy (i)).

### **(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Cash equivalents are short term highly liquid investments, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **(i) Impairment**

The carrying amounts of the Group's assets, other than investment property (see accounting policy d), and deferred tax assets (see accounting policy q), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

## **Significant accounting policies (continued)**

### **(i) Impairment (continued)**

#### **(i) Calculation of recoverable amount**

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **(ii) Reversals of impairment**

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **(j) Share capital**

#### **(i) Ordinary share capital**

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds.

#### **(ii) Preference share capital**

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends on preference share capital classified as liabilities are recognised in the income statement as interest expense.

#### **(iii) Dividends**

Dividends on preference shares classified as a liability are recognised as a liability and expensed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

### **(k) Classification of financial instruments issued by the Group**

Financial assets and liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial instruments issued by the Group are treated as equity (i.e. forming part of Shareholders' funds) only to the extent that they meet the following two conditions:

- (i)** they include no contractual obligations on the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, and

## Significant accounting policies (continued)

### (k) Classification of financial instruments issued by the Group (continued)

- (ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Finance payments associated with financial liabilities are dealt with as part of financial expenses.

### (l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

### (m) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### (n) Trade and other payables

Trade and other payables are stated at their cost.

### (o) Revenue

#### Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives including rent free periods and payments to tenants are allocated to the income statement on a straight line basis over the lease term.

### (p) Expenses

#### (i) Service costs and property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

#### (ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

### (q) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

## **Significant accounting policies (continued)**

### **(q) Income tax (continued)**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### **(r) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### **(s) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements.

- IFRIC 13, Customer loyalty programmes (effective date: financial year beginning 1 July 2008)
- IFRIC 16, Hedges of a net investment in a foreign operation (effective date: financial year beginning 1 October 2008)
- IFRS 8, Operating segments (effective date: financial year beginning 1 January 2009)
- Revised IAS 1, Presentation of financial statements (effective date: financial year beginning 1 January 2009)
- Revised IAS 23, Borrowing costs (effective date: financial year beginning 1 January 2009)
- Amendment to IFRS 2, Share-based payment - Vesting conditions and cancellations (effective date: financial year beginning 1 January 2009)
- Amendment to IAS 32, Financial instruments: Presentation and IAS 1, Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation (effective date: financial year beginning 1 January 2009)

## Significant accounting policies (continued)

### (s) New standards and interpretations not yet adopted (continued)

- Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards, and IAS 27, Consolidation and separate financial statements - Cost of an investment in a subsidiary, jointly - controlled entity or associate (effective date: financial year beginning 1 January 2009)
- Improvements to IFRSs (effective date: financial year beginning 1 January 2009 or 1 July 2009)
- IFRIC 15, Agreements for the construction of real estate (effective date: financial year beginning 1 January 2009)
- Revised IFRS 1, First-time adoption of International Financial Reporting Standards (effective date: financial year beginning 1 July 2009)
- Basis for conclusions on revised IFRS 1, First-time adoption of International Financial Reporting Standards
- Implementation guidance on revised IFRS 1, First-time adoption of International Financial Reporting Standards
- Revised IFRS 3, Business combinations (applies to business combinations for which the acquisition date is on or after the beginning of first annual reporting period beginning on or after 1 July 2009)
- Amendment to IAS 27, Consolidated and separate financial statements (effective date: financial year beginning 1 July 2009)
- Amendment to IAS 39, Financial instruments: Recognition and measurement - Eligible hedged items (effective date: financial year beginning 1 July 2009)
- IFRS 17, Distribution of non-cash assets to owners (effective date: financial year beginning 1 July 2009)
- IFRIC 18, Transfer of assets from customers (effective date: applies to transfers of assets from customers received on or after 1 July 2009)

The standards and interpretations addressed above will be applied for the purposes of the Group financial statements with effect from the dates listed.

Upon adoption of IFRS 8 "Operating Segments", the Group will disclose additional segmental reporting information. The adoption of the revised IAS 23 is not expected to have any impact as the Group currently capitalises the interest on all qualifying assets.

Upon the adoption of the above new standards it is not expected that there will be an effect on reported income or net assets.

#### 4. Investment properties and investment properties under development

##### (a) Movement in the year

In thousands of pounds Sterling

	Investment Properties	Investment properties under development	Total
Valuation at 1 January 2008	922,661	853,777	1,776,438
Additions	15,248	90,666	105,914
- property acquisitions	4,435	-	4,435
- subsequent expenditure	10,813	90,666	101,479
Transfer	(60,428)	60,428	-
Disposals	(23,620)	(948)	(24,568)
Deficit on revaluation	(120,388)	(161,600)	(281,988)
Currency translation adjustment	213,447	120,939	334,386
Valuation at 31 December 2008	<b>946,920</b>	<b>963,262</b>	<b>1,910,182</b>
<b>Properties held in</b>			
UK	47,750	406,000	453,750
Ireland	899,170	557,262	1,456,432
	<b>946,920</b>	<b>963,262</b>	<b>1,910,182</b>

	Investment Properties	Investment properties under development	Total
Valuation at 1 January 2007	487,977	655,422	1,143,399
Additions	362,793	154,375	517,168
- property acquisitions	85,263	1,100	86,363
- subsequent expenditure	56	51,937	51,993
- business combinations	277,474	101,338	378,812
Disposals	-	(5,338)	(5,338)
Surplus on revaluation	2,105	21,070	23,175
Currency translation adjustment	69,786	28,248	98,034
Valuation at 31 December 2007	<b>922,661</b>	<b>853,777</b>	<b>1,776,438</b>
<b>Properties held in</b>			
UK	60,583	456,000	516,583
Ireland	862,078	397,777	1,259,855
	<b>922,661</b>	<b>853,777</b>	<b>1,776,438</b>

Investment property under development includes capitalised loan interest at 31 December 2008 of £90.5m (2007: £53.1m).

Included in additions for the year are project development and project management fees payable to Treasury Holdings of £12.4m (2007: £7.4m). See Note 24 for further details.

Investment properties and investment properties under development are stated at Market Value at 31 December 2008. Market Value means 'the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'.

The valuations of the Group's freehold and leasehold interests in the Irish investment properties and investment properties under development were carried out by DTZ Sherry FitzGerald, Colliers Jackson-Stops and CB Richard Ellis, qualified professional valuers acting in the capacity of External Valuer. Each of the valuations was carried out in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation Standards. The valuations were carried out as at 31 December 2008.

The valuers have used the following key assumptions

- The Market Value of Investment Properties has been primarily derived using comparable market transactions on arm's-length terms and an assessment of market sentiment. The aggregate of the net annual rents receivable from the properties and, where relevant, associated costs, have been valued at yields, ranging from 4.2% to 6.36%, which reflect the risks inherent in the net cash flows. Valuations reflect, where appropriate, the type of tenants actually in occupation or likely to be in occupation after letting of vacant accommodation and the market's perception of their creditworthiness and the remaining useful life of the property.
- The Market Value of investment properties under development, which are all classified as sites in the course of development and are expected to be developed between 2010 and 2025, were derived having regard to the anticipated value on completion less the necessary investment to complete the development, with due allowance for risk and uncertainty or comparable market transactions on an arm's length basis and an assessment of market sentiment.

As at 31 December 2008 the freehold interest in the property known as Battersea Power Station and 88 Kirtling Street, property holdings of the Group were valued by King Sturge LLP, acting as external valuers. The valuation was carried out in accordance with the Valuation Standards published by the RICS and the requirements of International Accounting Standard 40 – 'Investment Property'.

King Sturge LLP are newly appointed as retained valuers for Real Estate Opportunities Limited on Battersea power Station and 88 Kirtling Street. This is the first occasion on which they have reported values. The fees paid by Real Estate Opportunities Limited have been less than 5% of the total fee income of King Sturge LLP and this situation is unlikely to change in the future. The relationship between Real Estate Opportunities Limited and King Sturge LLP complies with RICS guidelines.

The properties are classified as sites in the course of development and were valued to Market Value having regard to the anticipated value on completion less the necessary investment to complete the development, with due allowance for risk and uncertainty.

The valuers opinion of Market Value was primarily derived using comparable recent market transactions on arms length terms. Buildings within the development which would normally be valued on the basis of estimated trading receipts, have been valued having regard to the potential net income generated by the use of the properties, capitalised with reference to comparable market transactions.

The valuation, dated 27 February 2009, is subject to various assumptions including anticipated transport improvements that will be made to the area and that a proposed density of approximately 8 million square feet will be achieved on the site.

The primary source of evidence for valuations should be recent, comparable market transactions on arms length terms. The current economic environment means that there have been few transactions for the types of property owned by REO. Consequently, there is a greater degree of uncertainty in respect of the figures reported by our

valuers. Until the number and consistency of comparable transactions increases, this situation is likely to remain the same.

The Group's properties are secured against interest bearing loans and borrowings as detailed in note 12.

During the year the Group disposed of a part of one investment property under development and realised a profit of £1.4m (2007: £3.6m).

During the year the Group disposed of its interest in an investment property which had a carrying value of £23.6m

## 5. Net asset value

In thousands of pounds Sterling, except share and per share amounts

### (i) Basic Net Asset Value

	2008	2007
Net asset value attributable to shareholders	150,384	408,661
Number of ordinary shares in issue (000's)	333,792	333,791
<b>Basic net asset value per share (Pence)</b>	<b>45.1</b>	<b>122.4</b>

### (ii) Diluted Net Asset Value

	2008	2007
Net asset value attributable to shareholders	150,384	408,661
Potential Conversion of Convertible Unsecured loan Stock 2011	-	101,113
Adjusted net asset value	150,384	509,774
Diluted number of ordinary shares in issue (000's)	333,792	434,904
<b>Diluted net asset value per share (Pence)</b>	<b>45.1</b>	<b>117.2</b>

### (iii) Diluted EPRA Net Asset Value

	2008	2007
Adjusted net asset value	150,384	509,774
Fair value of financial instruments	62,806	(13,235)
Deferred tax	134,332	129,290
EPRA net asset value	347,522	625,829
Diluted number of ordinary shares in issue (000's)	333,792	434,904
<b>Diluted EPRA net asset value per share (Pence)</b>	<b>104.1</b>	<b>143.9</b>

At 31 December 2008 there was no difference between basic and diluted NAV per share as the effect of all potentially dilutive securities was anti-dilutive.

The EPRA NAV per share excludes the mark to market adjustment on derivative financial instruments and deferred taxation on revaluations and is calculated on a diluted basis.

## 6. Investment in Associate – China Real Estate Opportunities

In thousands of pounds Sterling

Associate	Country of operation	Ownership	
		2008	2007
China Real Estate Opportunities Limited ("CREO")	Peoples Republic of China	17.58%	16.55%

The Group has accounted for its interest in CREO as an associate as the Company has significant influence over CREO's operating and financial policies as a result of the Group's shareholding and Treasury Holdings' shareholding and the fact that there are common directors between REO and CREO. CREO is a Jersey incorporated company focused on real estate investment and development in China. As a result of a share purchase and cancellation scheme by CREO, and the exercise of share options during the year, the Group's share of CREO's ordinary share capital has increased to 17.58%.

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expense of the associate.

Summary of financial information	2008	2007
<b>Group</b>		
Non-current assets	168,013	100,415
Current assets	20,588	18,387
Non-current liabilities	(87,414)	(56,181)
Current liabilities	(15,878)	(7,789)
Net assets	85,309	54,832
Income	9,832	15,557
Expenses	(26,515)	(8,755)
Net (loss) / profit	(16,683)	6,802

Movement in investment in associate	2008	2007
<b>Group</b>		
At the beginning of the year	54,832	-
Shares acquired	-	3,586
Shares acquired as consideration for trading asset	-	16,125
Shares acquired for cash	-	11,000
Adjustment for increase in proportional shareholding (i)	1,965	-
Share of (loss) / profit for the year	(16,683)	6,802
Share of gains on properties under development	3,447	3,796
Share of gains of currency reserves	38,871	941
Share of gains in other reserve	2,877	1,796
Share of contribution for new equity shares	-	10,786
At end of year	85,309	54,832

Company	2008	2007
At beginning of the year	30,711	-
Shares acquired	-	3,586
Shares acquired as consideration for trading asset	-	16,125
Shares acquired for cash	-	11,000
At end of year	30,711	30,711

(i) As a result of the increase in REO's proportional shareholding in CREO, an increase in reserves has been recognised.

The market value of the Group's shareholding in CREO at 31 December 2008 was £16.8m (2007:£69m).

As the market value of the REO investment in the shares of CREO at 31 December 2008 was less than the carrying amount of CREO in the consolidated balance sheet of REO, the investment in CREO was subject to an impairment test in accordance with IAS 36, comparing the carrying amount to the recoverable amount of the asset. The Group has established the fair value less costs to sell of CREO based on the market value at 31 December 2008 together with the recoverable amount under value in use. In arriving at their estimate of value in use of CREO, the Directors have had regard to the underlying assets of CREO, principally comprising investment properties stated at market value and appraised at 31 December 2008 by external professional valuers.

The fair value of each of CREO's investment property and investment property under development individually is determined at each balance sheet date based on market value for existing use basis using a combination of methodologies, namely direct comparison, discounted cash flow and residual approach. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

In addition, in arriving at the market values, CREO's independent valuers have assumed, inter alia, that legal titles to the properties are in place as of the respective property valuation date, notwithstanding that legal titles to land of City Center Phase 3 had not been granted as at 31 December 2008.

As the value in use is not less than the carrying amount of CREO in the consolidated financial statements, in the opinion of the directors, no impairment loss has arisen.

## 7. Trade and other receivables

*In thousands of pounds Sterling*

	<b>Group 2008</b>	<b>Group 2007</b>	<b>Company 2008</b>	<b>Company 2007</b>
<b>Trade and other receivables – current</b>				
Trade receivables	5,228	3,485	-	-
Deferred lease incentives	324	249	-	-
Accrued income	7,898	8,127	-	-
Other receivables and prepayments	4,364	8,528	-	394
Other loans	2,805	-	-	-
Derivative financial instruments	166	4,172	-	-
Loans to subsidiary undertakings	-	-	255,346	283,239
	<b>20,785</b>	<b>24,561</b>	<b>255,346</b>	<b>283,633</b>
<b>Trade and other receivables – non current</b>				
Deferred lease incentives	6,855	5,458	-	-
Other loans	-	2,160	-	-
	<b>6,855</b>	<b>7,618</b>	<b>-</b>	<b>-</b>

Other receivables are shown after deducting a provision for doubtful debts of £3.2m (2007: £nil).

## 8. Investment in subsidiary undertakings

*In thousands of pounds Sterling*

	<b>2008</b>	<b>2007</b>
At start of the year	301,262	171,401
Additions in the year	674	123,123
Transfer of interest in Havenvue (note 11)	-	6,738
Provision against carrying value in subsidiaries	(5,136)	-
At end of the year	<u>296,800</u>	<u>301,262</u>

During the year ended 31 December 2008 a provision of £5.1m was made against the carrying value of certain Group companies to write down their carrying value to their estimated recoverable amount which approximates the consolidated net assets.

Details of the Group's subsidiary undertakings are set out in note 26.

## 9. Other Investments – available for sale

*In thousands of pounds Sterling*

<b>Company and Group</b>	<b>2008</b>	<b>2007</b>
Valuation at 1 January	586	4,695
<i>Movements in year:</i>		
Realised gains on sales	-	(551)
Unrealised gain in year	-	52
Fair value movement	(396)	(24)
Disposal of shares in CREO S.A	-	(3,586)
Valuation at 31 December	<u>190</u>	<u>586</u>

There were no transaction costs incurred during the year.

## 10. Cash and cash equivalents

*In thousands of pounds Sterling*

	<b>Group 2008</b>	<b>Group 2007</b>	<b>Company 2008</b>	<b>Company 2007</b>
Cash at bank	11,284	9,241	437	1,379
Bank deposit balances	44,219	67,145	-	-
<b>Total cash and cash equivalents in the statement of cash flows</b>	<b>55,503</b>	<b>76,386</b>	<b>437</b>	<b>1,379</b>
Restricted cash – non current	12,788	-	-	-
Restricted cash - current	26,067	733	-	-
<b>Total restricted cash</b>	<b>38,855</b>	<b>733</b>	<b>-</b>	<b>-</b>
<b>Total cash</b>	<b>94,358</b>	<b>77,119</b>	<b>437</b>	<b>1,379</b>

At year end, access was restricted to £39m (2007: £0.7m) of cash deposits until the fulfilment of certain conditions pursuant to underlying loan agreements.

## 11. Interest in joint venture / investment in joint venture

*In thousands of pounds Sterling*

<b>Group</b>	<b>2008</b>	<b>2007</b>
<b>Share of joint venture</b>		
At start of year	-	43,013
Share of profit for the year	-	11,009
Currency movement	-	(71)
Purchase of remaining 50% of Havenview joint venture	-	(53,951)
	-	-
Income	-	17,391
Expense	-	(6,382)
Net Profit	-	11,009
<b>Company</b>	<b>2008</b>	<b>2007</b>
At start of year	-	6,738
Additions	-	-
Transferred to investment on acquisition of subsidiary	-	(6,738)
	-	-

On 8 November 2007, the Group acquired 100% of the "B" ordinary share capital previously held by the Treasury Holdings Group in Havenview Investments Limited ("Havenview"). The Group now holds 100% of the issued shares in Havenview and therefore consolidates Havenview as a subsidiary undertaking.

## 12. Interest bearing loans and borrowings

In thousands of pounds Sterling

	Group 2008	Group 2007	Company 2008	Company 2007
<b>Non-current liabilities</b>				
Bank loans secured on Irish property assets (i)	340,308	435,078	-	-
7.5% Convertible Unsecured Loan Stock (ii)	101,112	101,113	101,112	101,113
Senior loan (iii)	357,176	272,987	-	-
6.324% Series A and B secured loan notes (iv)	147,782	149,611	147,782	149,611
Bank loans secured on UK property assets (v)	214,189	190,467	-	-
Zero dividend preference share ("ZDP") entitlement (vi)	110,495	101,355	-	101,355
	<b>1,271,062</b>	<b>1,250,611</b>	<b>248,894</b>	<b>352,079</b>
<b>Current liabilities</b>				
6.324% Series A and B secured loan notes (iv)	1,531	-	1,531	-
Bank loans secured on Irish property assets (i)	439,102	99,607	-	--
	<b>440,633</b>	<b>99,607</b>	<b>1,531</b>	<b>-</b>

(i) The bank loans on Irish properties are secured by floating charges over the Castle Market Holdings Limited Group and Havenview Investments Limited Group, fixed charges over the Irish investment and investment properties under development, a guarantee and indemnity from the Company and various smaller guarantees from Mr John Ronan, Treasury Holdings and certain subsidiaries.

(ii) Interest on the 7.5% Convertible Unsecured Loan Stock 2011 ("CULS") is payable by equal half yearly instalments on 28 February and 31 August each year. The CULS units are ordinarily convertible at the option of the holder between 1 April and 30 April in each year to 2011 on the basis of one ordinary share for each CULS unit converted.

(iii) Pursuant to a Senior Loan Agreement (the 'Senior Loan') entered into between CMH CMBS Borrower Limited (the 'Borrower') a wholly owned subsidiary of CMH, and Opera Finance (CMH) plc (the 'Issuer'), the Issuer entered into an agreement to advance the proceeds of a €375m Commercial Mortgage Backed Floating Rate Note repayable in 2015 to the Borrower. The Issuer, a special purpose vehicle, is not a CMH group company.

The Senior Loan constitutes a limited recourse obligation of the Borrower as to principal and full recourse obligation of the Borrower as to interest and is secured by, among other things, a first legal mortgage over 14 properties held by CMH subsidiaries. Interest is payable quarterly in arrears.

The Senior Loan is due for repayment in full by the Borrower in January 2013.

(iv) Pursuant to an agreement to purchase the shares in companies owning the Battersea Powerstation on 29 December 2006 the Company issued £100m 6.324% Series A Secured Loan Notes due for repayment in 2011 and £50m 6.324% Series B Secured Loan Notes due for repayment in 2011.

The Series A and Series B Notes (the 'Loan Notes') are due for repayment on 31 May 2011. The principal repayments in 2008 were £294,000 (2007: £389,000). Interest on the series B notes is payable twice yearly in arrears on 28 February and 31 August. Interest on the series A notes in the period to 28 February 2008 was made by amortising half yearly payments to 28 February 2011.

Security in respect of the loan notes, representing secondary fixed and floating charges over all of the assets in REO (Bund) Limited and subsidiaries, ranks behind the security granted to the Bank of Scotland pursuant to the Bank Facility.

The Loan Notes are subject to a call-option pursuant to which the Company may redeem the Loan Notes for cash at any time following completion. In addition, under the terms of the acquisition agreement:

1. The Seller has the right to use the proceeds of redemption of the Loan Notes to subscribe, at the issue price of any relevant fundraising, up to £150m in new ordinary shares in the Company if more than £5m is sought to be raised at the relevant time. For this purpose, fundraisings include any issue of shares in consideration for the transfer to the Company of assets or shares in another company.

2. If £5m or more of CULS convert into ordinary shares (with the result that the Sellers interest in the Company's shares is diluted), the Seller has the right, exercisable within 30 days of receipt of a notice of that conversion, to exercise a further option to subscribe for such number of shares in the Company as the Seller would have been entitled to subscribe at the time of the exercise of the option referred to at paragraph 4, had the CULS which have converted been converted prior to the exercise of the option referred to at paragraph 4 below.

3. The price payable by the Seller upon exercise of the further option described in paragraph 4 is the higher of:

- (a) The last price at which the Company issued equity pursuant to a fundraising plus interest at three month LIBOR plus 200 basis points, compounded quarterly;
- (b) A minimum price per ordinary share such that the net asset value per ordinary share will not be reduced;
- (c) If such restriction remains relevant by virtue of the operation of the trust deed constituting the CULS, an amount equal to 95% of the market value of the ordinary shares in the 30 day period prior to exercise of the relevant option.

4. The options can only be exercised:

- (a) For so long as the Seller is under the control of one or more members of the Hwang family;
- (b) To the extent that the Seller would not hold more than 10% of REO's enlarged issued share capital immediately following exercise;
- (c) To the extent that, immediately thereafter, Treasury Holdings would not hold less than 50.1% of REO's enlarged ordinary share capital;
- (d) Prior to 29 December 2018.

If the Seller does not exercise its right to take up the equity option in relation to any particular fundraising, it forgoes its right to subscribe that amount, and the £150m is thereby reduced.

(v) The Sterling loan facility agreements with the Governor and Company of the Bank of Scotland are for the purpose of financing the Companies owning the Battersea Power Station and related properties. These loans are guaranteed by the Company and certain subsidiaries of the Group. The borrowings are secured by debentures over the assets of the subsidiary companies.

(vi) Rights attaching to the ZDP Shares

(a) As to dividends:

The ZDP shares 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 ZDP shares are entitled to an amount equal to 100p per ZDP share 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 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 ZDP shares, 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

### 13. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

*In thousands of pounds Sterling*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Derivative financial instruments	(5,818)	-	-	4,736	(5,818)	4,736
Investment property	-	-	140,150	124,554	140,150	124,554
	<b>(5,818)</b>	<b>-</b>	<b>140,150</b>	<b>129,290</b>	<b>134,332</b>	<b>129,290</b>

Movement in temporary differences during the year:

	Derivative financial instruments	Investment property	Total
<b>2008</b>			
At start of year	4,736	124,554	129,290
Effect of rate change (note 21)	-	13,528	13,528
Recognised in profit and loss	(9,691)	(31,609)	(41,300)
Foreign currency movements	(863)	33,677	32,814
<b>At end of year</b>	<b>(5,818)</b>	<b>140,150</b>	<b>134,332</b>
<b>2007</b>			
At start of year	2,028	69,723	71,751
Recognised in profit and loss	1,799	6,659	8,458
Foreign currency movements	292	8,076	8,368
Arising on acquisition of subsidiaries	617	40,096	40,713
<b>At end of year</b>	<b>4,736</b>	<b>124,554</b>	<b>129,290</b>

#### Unrecognised deferred tax assets and liabilities

*In thousands of pounds Sterling*

Deferred tax assets have not been recognised in respect of the following items:

	2008	2007
Tax losses	26,156	23,603
Revaluation of investment properties and investment properties under development	12,951	-
Derivative financial instruments	2,616	-
	<b>41,723</b>	<b>23,603</b>

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

There were no unrecognised deferred tax liabilities at the end of 2008 (2007: £nil).

## 14. Trade and other payables

*In thousands of pounds Sterling*

	<b>Group 2008</b>	<b>Group 2007</b>	<b>Company 2008</b>	<b>Company 2007</b>
<b>Trade and other payables - current</b>				
Interest accruals	18,503	9,652	10,308	3,564
Capital accruals	17,792	5,604	-	-
Other creditors and accruals	10,523	20,372	764	12,063
Rentals received in advance	4,521	2,837	-	-
Current tax payable	4,070	10,059	-	-
Loans from subsidiary undertakings	-	-	59,302	71,937
	<b>55,409</b>	<b>48,524</b>	<b>70,374</b>	<b>87,564</b>
<b>Trade and other payables – non current</b>				
Accrued interest Series A and B Secured loan notes 2011	2,668	6,324	2,668	6,324
Provisions	1,081	863	-	-
Loans from subsidiary undertakings	-	-	110,495	-
	<b>3,749</b>	<b>7,187</b>	<b>113,163</b>	<b>6,324</b>

## 15. Share capital and reserves

### (a) Share capital

*In thousands of pounds Sterling*

	2008	2007
<b>Authorised</b>		
600,000,000 ordinary shares of 1p	6,000	6,000
2007: 300,000,000 Zero Dividend Preference shares of 1p	-	3,000
	<u>6,000</u>	<u>9,000</u>
<b>Allotted, called up and fully paid</b>		
333,792,816 (2007: 333,791,487) ordinary shares of 1p	3,338	3,338
2007: 57,755,782 Zero Dividend Preference shares of 1p each	-	578
	<u>3,338</u>	<u>3,916</u>
Presented as debt:		
2007: 57,755,782 Zero Dividend Preference shares of 1p each	-	578
Presented as equity:		
333,792,816 (2007: 333,791,487) ordinary shares of 1p	3,338	3,338
	<u>3,338</u>	<u>3,916</u>

On 2 June 2008 1,329 ordinary shares were issued following conversion of 1,329 unsecured loan notes.

On 14 February 2008 a scheme of arrangement was approved ("the scheme") by the Royal Court of Jersey in order to cancel the ZDP shares and issue in exchange New ZDP shares in REO Securities Limited, a subsidiary of the Company. On 18 February 2008 REO Securities Limited was listed on the London Stock Exchange and 57,755,782 New ZDP shares were issued at 0.001p per New ZDP share. These new ZDP shares were issued on a one for one basis in exchange for the cancelled ZDP shares in the Company.

The impact of the scheme on share premium and retained earnings is described in note 15(b).

The rights attached to the ZDP shares are set out in note 12.

The ordinary shareholders are entitled to all the undistributed net revenue of the Company resolved to be distributed. On winding-up, the ordinary shareholders are entitled to all the undistributed net revenue of the Company and, after the prior capital entitlement of the ZDP shareholders in REO Securities Limited has been met in full, all the remaining net assets of the Company. Holders of ordinary shares are entitled to attend and vote at all general meetings of the Company. In addition their separate approval as a class is required for certain proposals which would be likely to affect their position, including any material change in the Company's investment policy, any variation of the winding up provisions in its Articles of Association or any issue of shares, or securities convertible or exchangeable into shares, other than where the Ordinary Share Test (as defined in the Articles of Association) is satisfied.

## 15 (b) Reconciliation of equity and Reserves

Group 2007 In thousand of pounds sterling	Share capital	Share premium	Other reserve	Currency reserve	Revaluation reserve	Redemption reserve	Retained earnings	Investment reserve	Total equity reserves attributable to shareholders	Minority interest	Total
Balance at 1 January 2007	2,530	285,448	-	-	-	1,480	(106,037)	1,718	185,139	1,241	186,380
Total recognised income and expense	-	-	12,582	41,901	3,796	-	50,486	(24)	108,741	566	109,307
Acquisition of new subsidiary	808	120,269	-	-	-	-	-	-	121,077	4,530	125,607
Conversion of loan stock	-	30	-	-	-	-	-	-	30	-	30
Dividend on ordinary shares (note 15c)	-	-	-	-	-	-	(6,326)	-	(6,326)	-	(6,326)
Realisation of investment reserve on disposal of investments	-	-	-	-	-	-	1,694	(1,694)	-	-	-
<b>Balance at 31 December 2007</b>	<b>3,338</b>	<b>405,747</b>	<b>12,582</b>	<b>41,901</b>	<b>3,796</b>	<b>1,480</b>	<b>(60,183)</b>	<b>-</b>	<b>408,661</b>	<b>6,337</b>	<b>414,998</b>
Total recognised income and expense	-	-	4,842	101,530	3,447	-	(363,090)	-	(253,271)	(7,199)	(260,470)
Cancellation of share premium	-	(405,747)	-	-	-	-	405,747	-	-	-	-
Conversion of loan stock	-	1	-	-	-	-	-	-	1	-	1
Dividend on ordinary shares (note 15c)	-	-	-	-	-	-	(5,007)	-	(5,007)	-	(5,007)
<b>Balance at 31 December 2008</b>	<b>3,338</b>	<b>1</b>	<b>17,424</b>	<b>143,431</b>	<b>7,243</b>	<b>1,480</b>	<b>(22,533)</b>	<b>-</b>	<b>150,384</b>	<b>(862)</b>	<b>149,522</b>

<b>Company 2007</b> <i>In thousand of pounds sterling</i>	Share capital	Share premium	Redemption reserve	Retained earnings	Investment reserve	Total
Balance at 1 January 2007	2,530	285,448	1,480	(254,159)	1,718	37,017
Total recognised income and expense	-	-	-	19,830	-	19,830
Acquisition of new subsidiary	808	120,269	-	-	-	121,077
Net deficit on revaluation of listed investments	-	-	-	-	(24)	(24)
Conversion of loan stock	-	30	-	-	-	30
Dividend on ordinary shares (note 15c)	-	-	-	(6,326)	-	(6,326)
Realisation of investment reserve on disposal of investments	-	-	-	1,694	(1,694)	-
<b>Balance at 31 December 2007</b>	<b>3,338</b>	<b>405,747</b>	<b>1,480</b>	<b>(238,961)</b>	<b>-</b>	<b>171,604</b>
Total recognised income and expense	-	-	-	(17,076)	-	(17,076)
Cancellation of share premium	-	(405,747)	-	405,747	-	-
Conversion of loan stock	-	1	-	-	-	1
Dividend on ordinary shares (note 15c)	-	-	-	(5,007)	-	(5,007)
<b>Balance at 31 December 2008</b>	<b>3,338</b>	<b>1</b>	<b>1,480</b>	<b>144,703</b>	<b>-</b>	<b>149,522</b>

**(a) Share premium**

Pursuant to the scheme noted above, the entire amount standing to the credit of the Company's share premium account was cancelled and used to eliminate the deficit in the Company's revenue reserves. The impact of this was to reduce share premium by £405.7 million and to increase the Company retained earnings by £405.7 million.

The scheme also made provision for the adoption of New Articles which do not provide for a fixed winding up date for the Company. The new articles are also updated to take account of the cancellation of the ZDP shares, to reflect the changes of the Company's listing status from a property investment company to a property company and to reflect the Company's position as a holding company of a property group.

**(b) Redemption reserve**

The redemption reserve is in respect of the nominal value of the ordinary shares repurchased of £1,480,000 (2007: £1,48m) and accrued redemption premium on the Zero Dividend Preference shares of £nil (2007: £nil).

**(c) Property revaluation reserve**

The property revaluation reserve arises in respect of the Group's share of the revaluation reserve of its Associate, CREO.

**(d) Currency translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. A substantial part of the translation reserve in 2008 arose as a result of translating the financial statements of the group's Irish subsidiaries. The functional currency of these subsidiaries is Euro, which appreciated significantly against Stg during the year.

**(e) Minority interest**

Mr John Ronan is a minority shareholder in 4 of the Group's subsidiaries. As REO has a binding obligation in writing from Mr John Ronan to fund his share of the losses arising in those entities, the directors are satisfied that it is appropriate to recognise the minority's share of the equity deficit in those entities as part of minority interest.

**15 (c) Dividends**

*In thousands of pounds Sterling*

	<b>2008</b>	<b>2007</b>
Dividends paid (note 15b)	5,007	6,326

A dividend of 1.5p per share was paid on 10 July 2008 in respect of the year to 31 December 2007.

No dividend has been proposed by the directors during the year (2007: 2.5p per ordinary share).

## 16. Segment reporting

Segment information is presented in the consolidated financial statements in respect of the Group's geographical segments. The geographical segments reflect the Group's management and internal reporting structure.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

For the purposes of shareholder information only, the directors have presented a categorisation of the Group's properties in note 4. *Investment Properties and investment properties under development* are based on the following asset classifications:

- Investment properties are properties that are held either to earn rental income or for capital appreciation or both:
- Investment properties under development are those previously held as investment properties and are now being redeveloped.

*For the years ended 31 December 2008 and 31 December 2007*

### Geographic - Group

*In thousands of pounds Sterling*

	Ireland		United Kingdom		Consolidated	
	2008	2007	2008	2007	2008	2007
<b>Segment revenue</b>	30,609	19,342	1,528	720	32,137	20,062
<b>Segment result</b>	(160,101)	20,402	(104,514)	7,880	(264,615)	28,282
Legal settlement (note 17)					-	52,071
<b>Operating (loss) / profit</b>					<b>(264,615)</b>	<b>80,353</b>
Net financing costs					(121,360)	(36,790)
Share of (loss) / profit of associate					(16,683)	6,802
Share of profit of joint venture					-	11,009
Income tax credit / (expense)					31,978	(10,928)
Minority interest					7,590	40
<b>(Loss) / profit for the year</b>					<b>(363,090)</b>	<b>50,486</b>

*At 31 December 2008 and 31 December 2007*

### Geographic

*In thousands of pounds Sterling*

	Ireland		United Kingdom		Consolidated	
	2008	2007	2008	2007	2008	2007
<b>Segment assets</b>	1,581,127	1,379,725	457,334	516,954	2,038,461	1,896,679
<b>Segment liabilities</b>	(1,361,636)	(966,329)	(612,612)	(570,184)	(1,974,248)	(1,536,513)
Investments in associate			-	-	85,309	54,832
<b>Net assets / (liabilities)</b>	<b>219,491</b>	<b>413,396</b>	<b>(155,278)</b>	<b>(53,230)</b>	<b>149,522</b>	<b>414,998</b>
<b>Capital expenditure</b>	<b>63,089</b>	<b>21,146</b>	<b>38,390</b>	<b>30,847</b>	<b>101,479</b>	<b>51,993</b>

## 17. Other income

*In thousands of pounds Sterling*

	<b>2008 Group</b>	<b>2007 Group</b>	<b>2008 Company</b>	<b>2007 Company</b>
Legal settlement	-	52,071	-	52,071
Other income	1,147	1,124	204	418
	<b>1,147</b>	<b>53,195</b>	<b>204</b>	<b>52,489</b>

On 15 March 2007 Real Estate Opportunities Limited ("REO") reached a settlement with Aberdeen Asset Management ("Aberdeen") in relation to all claims against Aberdeen arising from the launch of REO and subsequent management by Aberdeen of REO's income portfolio. On the 16 May 2007 agreement was also reached with UBS in relation to a similar claim. The amounts included in the financial statements in the prior year represent the total received net of costs.

In 2007, claims by Treasury Holdings against UBS arising from the launch of REO were settled for £1.6m.

## 18. Management fees

*In thousands of pounds Sterling*

	<b>2008 Group</b>	<b>2007 Group</b>	<b>2008 Company</b>	<b>2007 Company</b>
Management fee	3,447	2,465	-	400
Performance fee	-	10,771	-	10,771
	<b>3,447</b>	<b>13,236</b>	<b>-</b>	<b>11,171</b>

On 5 December 2006, Treasury Holdings entered into agreements with the Company to act as Investment Adviser to the Company in relation to the Irish Property Portfolio and Investment Adviser to the Group's Global Property Assets (the Property Portfolio excluding the Irish Property Portfolio). Both agreements continue until terminated by either party on 12 months written notice or on shorter notice in the event of breach of contract or insolvency. Under the agreements Treasury Holdings is entitled to receive:

(i) a Base Fee which is generally payable quarterly in arrears at the rate of 0.5% per annum of the value of the Group's assets.

(ii) a Performance Fee in respect of the year ended 31 December 2008 based on the percentage increase in total net asset value of the ordinary shares in the Company in the period. The fee is calculated as a percentage of the whole increase in net asset value during the calculation period.

For the purposes of calculation of the performance fee, the total net assets of the ordinary shares are adjusted for any change in share capital, exceptional items not relating to performance and movements due to the fluctuations in currency. The performance fee for the year was £nil (2007: £10.7m).

(iii) a Development Fee based on 1.5% of the actual construction costs from the commencement date for each and every property designated as a Development Property. Such fee to be paid quarterly in arrears in equal proportions over the period of the development. Any shortfall or overpayment to be paid/repaid on submission of a final statement based on actual construction costs. The development fees for the year were £12m (2007: £7.4m).

(iv) a Project Management Fee based on 1.5% of the actual construction costs from the commencement date for each and every property designated as a Development Property. Such fee to be paid quarterly in arrears in equal proportions over the period of the development. Any shortfall or overpayment to be

paid/repaid on submission of a final statement based on actual construction costs. The project management fees for the year were £0.4m (2007: £nil)

## 19. Operating expenses

*In thousands of pounds Sterling*

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
General expenses	11,276	4,575	1,697	1,033
Directors' fees (see below)	250	285	250	285
Litigation committee fees (see below)	-	17	-	17
Auditors' remuneration				
- for audit services	335	295	50	50
- for tax advisory services	611	336	84	80
- for other services	96	27	37	-
Other professional fees	1,341	6,593	639	6,131
	<b>13,909</b>	<b>12,128</b>	<b>2,757</b>	<b>7,596</b>

Included in general expenses is a provision of £3.2m in respect of a receivable balance.

In addition, the auditors charged £96,000 (2007: £90,000) for non-audit services which have either been capitalised or included as part of the issue costs of the loans in accordance with the Group's accounting policies.

The fees of the Directors of the Company for the year were as follows:

*In thousands of pounds Sterling*

	<b>2008</b>	<b>2007</b>
<b>Non-executive</b>		
R Horney	80	80
R Barrett	15	15
K Jenkins	35	35
JP Jenkinson	35	35
G Milne	35	35
D Moon	-	35
M Richardson	35	35
G Leech	15	15
	<b>250</b>	<b>285</b>

The Directors' fees authorised by the Articles of Association are an aggregate of £500,000 per annum.

In addition, the following fees were due to Directors for services to the Litigation Committee:

*In thousands of pounds Sterling*

	<b>2008</b>	<b>2007</b>
R Horney	-	7
K Jenkins	-	3
JP Jenkinson	-	7
	<b>-</b>	<b>17</b>

## 20. Finance income and expense

In thousands of pounds Sterling

	2008 Group	2007 Group	2008 Company	2007 Company
<b>(a) Recognised in income statement</b>				
Interest income on bank deposits	2,847	3,647	62	916
Realised gains on sales of listed investments	-	52	-	52
Dividend income	-	-	28,882	-
Cash receipts on derivatives	7,938	1,523	-	-
Fair value movements on derivatives	-	8,064	-	-
<b>Finance income</b>	<b>10,785</b>	<b>13,286</b>	<b>28,944</b>	<b>968</b>
Interest expense on bank loans repayable, other than by instalment, wholly within 5 years	(53,859)	(35,540)	-	-
Interest expense on senior loans repayable, other than by instalment, after more than 5 years	-	(10,984)	-	-
Interest expense on bank loans repayable by instalment, within 5 years	(12,998)	(2,351)	-	-
Interest on 7.5% Convertible Unsecured Loan Stock 2011	(7,586)	(7,577)	(7,586)	(7,577)
Interest on 6.324% Series A and B loan notes 2011	(9,747)	(9,486)	-	-
Interest in respect of Zero Dividend Preference shares	(9,140)	(8,362)	(1,082)	(8,362)
Interest on intercompany advance	-	-	(8,058)	-
Other interest	(241)	(36)	-	-
Foreign exchange loss	-	(6,995)	(21,605)	(4,629)
Fair value movements on derivatives	(75,974)	-	-	-
Interest capitalised	37,400	31,255	-	-
<b>Finance expense</b>	<b>(132,145)</b>	<b>(50,076)</b>	<b>(38,331)</b>	<b>(20,568)</b>
<b>Net finance expense recognised in income statement</b>	<b>(121,360)</b>	<b>(36,790)</b>	<b>(9,387)</b>	<b>(19,600)</b>
<i>The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through income statement</i>				
Total interest income on financial assets	2,847	3,647	28,944	916
Total interest expense on financial liabilities (excluding interest capitalised)	(56,171)	(50,076)	(38,331)	(20,568)
<b>(b) Recognised directly to equity</b>				
Foreign currency translation differences	101,921	42,507	-	-
<b>Finance expense recognised directly to equity</b>	<b>101,921</b>	<b>42,507</b>	<b>-</b>	<b>-</b>
<b>Attributable to:</b>				
- Equity holders	101,530	41,901	-	-
- Minority Interest	391	606	-	-
	<b>101,921</b>	<b>42,507</b>	<b>-</b>	<b>-</b>

## 21. Taxation - Group

In thousands of pounds Sterling

	2008	2007		
<b>(a) Recognised in the income statement</b>				
<b>Current tax expense</b>				
Current year charge	(2,464)	2,204		
Adjustment for prior periods	(1,742)	266		
	(4,206)	2,470		
<b>Deferred tax expense</b>				
Fair value movement of derivatives	(9,691)	1,799		
Effect of change in tax rate (i)	13,528	-		
Valuation (losses) / gains on investment properties and on investment properties under development	(31,609)	6,659		
	(27,772)	8,458		
<b>Income tax (credit) / expense</b>	<b>(31,978)</b>	<b>10,928</b>		
Share of income tax of equity accounted investees	1,318	7,544		
<b>Total income tax (credit) / expense</b>	<b>(30,660)</b>	<b>18,472</b>		
<b>(b) Reconciliation of effective tax rate</b>				
(Loss) / profit for the year		(370,284)		50,446
Total income tax (credit) / expense		(30,660)		18,472
(Loss) / profit excluding income tax		<b>(400,944)</b>		<b>68,918</b>
Notional tax on profit before tax, calculated at the rate applicable to the profits in the jurisdiction concerned	16.0%	(64,108)	21.6%	14,879
Non-deductible expenses	(1.9%)	7,811	1.2%	819
Unutilised tax losses	(0.4%)	1,559	2.3%	1,590
(Under) / over provision in prior year	0.4%	(1,742)	0.4%	266
Change in tax rate during the year	(3.4%)	13,529	1.3%	918
Temporary differences not recognised	(3.1%)	12,291	-	-
<b>Current tax (credit) / charge for the year</b>		<b>(30,660)</b>		<b>18,472</b>

(i) With effect from 15 October 2008, the capital gains tax rate which may apply to disposals of the investment properties and investment properties under development on or after that date was increased from 20% to 22%. This change in rate has the effect of increasing the total deferred tax being provided for in respect of the investment properties and investment properties under development by £13.5m in the year.

As a collective investment fund under the Collective Investment Funds (Jersey) Law 1988, the Company and its Jersey subsidiaries were entitled to exempt company status in Jersey under the provisions of article 123(A) of the Income Tax (Jersey) Law 1961 on payment of an annual fee which is currently £600 per company. The Company and its Jersey subsidiaries have obtained exempt company status for the year ended 31 December 2008 and accordingly, income and capital gains of the Company, other than Jersey source income (excluding bank deposit interest), are exempt from taxation in Jersey for the financial year 2008.

With effect from 3 June 2008, the income tax rate for new companies in Jersey was reduced from 20% to 0% and exempt company status for all new companies was abolished. The existing exempt company status of the

Company and its Jersey subsidiaries will remain in place until 31 December 2008 at which time they will move to a 0% rate of income tax.

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 and its Jersey subsidiaries may apply for international service entity status under the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008 on payment of an annual fee of £100 per company and be treated as being outside the scope of GST. The Company and its Jersey subsidiaries have all been granted international service entity status for the year 2008.

## 22. Earnings per share

In thousands of pounds Sterling, except shares and per share amounts

### (i) Basic (loss) / earnings per share

	2008	2007
(Loss) / profit attributable to equity holders	(363,090)	50,486
Weighted average number of ordinary shares		
Issued shares at beginning of year	333,791	253,044
Effect of shares issued during the year	1	11,736
Weighted average number of ordinary shares (000's)	333,792	264,780
<b>(Loss) / earnings per share (Pence)</b>	<b>(108.8)</b>	<b>19.1</b>

### (ii) Diluted (loss) / earnings per share

	2008	2007
(Loss) / profit attributable to equity holders	(363,090)	50,486
Effect of interest on Convertible Unsecured loan Stock 2011	-	7,577
(Loss) / profit attributable to equity holders (diluted)	(363,090)	58,063
Weighted average number of ordinary shares– diluted (000's)	333,792	264,780
Effect of potential conversion of Convertible Unsecured Loan Stock 2011	-	101,113
Weighted average number of ordinary shares – diluted (000's)	333,792	365,893
<b>Diluted (loss) / earnings per share (Pence)</b>	<b>(108.8)</b>	<b>15.9</b>

### (iii) Diluted EPRA (loss) / earnings per share

	2008	2007
(Loss) / profit attributable to equity holders - diluted	(363,090)	58,063
Revaluation movement on investment properties and on investment properties under development	281,988	(23,175)
Movement in fair value of derivative financial instruments	75,974	(8,064)
Profit on disposal of investment property under development	(1,445)	(3,577)
Profit on disposal of asset	-	(5,708)
Deferred Tax	(27,772)	12,723
Minority interest in respect of above	8,922	(269)
Diluted EPRA (loss) / earnings	(25,423)	29,993
Weighted average number of ordinary shares - diluted (000's)	333,792	365,893
<b>Diluted EPRA (loss) / earnings per share (Pence)</b>	<b>(7.6)</b>	<b>8.2</b>

For the year ended 31 December 2008 there was no difference between basic and diluted loss per share as the effect of all potentially dilutive securities was anti-dilutive.

The European Public Real Estate Association (EPRA) issued Best Practice Policy Recommendations in November 2006, which gives guidelines for performance measures. The EPRA earnings excludes investment property and investment property under development revaluations, gains on disposals, movements on derivative financial instruments and their related tax consequences.

## 23. Contingencies, guarantees and capital commitments

### 23(a) Capital commitments

Future capital expenditure, contracted for and approved by the Directors, but not provided for in these financial statements, is as follows:

<i>In thousands of pounds Sterling</i>	<b>2008</b>	<b>2007</b>
Contracted for	86,470	1,974
Authorised not contracted	2,632	-
	<u>89,102</u>	<u>1,974</u>

These commitments are expected to be settled in the following financial year.

### 23(b) Financial guarantees

Where the Company enters into financial guarantees contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group has no outstanding guarantees or other financial commitments.

### 23(c) Contingencies

There are no contingencies in the Group, the outcome of which could have a material effect on the Group's financial position.

## 24. Related parties

The group has related party relationships with its subsidiaries (see note 8) and its associate (note 6).

On 5 December 2006 Treasury Holdings entered into an agreement with the Company to act as investment advisor for all of the Group's property assets replacing INVESCO. The terms upon which Treasury Holdings were appointed are set out in note 6. There was no fee payable during 2008 (2007: £10,8m).

Pursuant to the Investment Advisor Agreement, Treasury Holdings received an investment management fee of £3.4m (2007: £3.5m). In addition to the fees payable to Treasury Holdings disclosed in Note 18, project development and project management fees of £12.4m (2007: £7.4m) were paid to a company within the Treasury Holdings Group. There were no unpaid fees at year end.

On 18 July 2006 Treasury Holdings entered into an agreement with the Company to act as accounting services agent for the Group to provide certain accounting and administrative services. This agreement provides for an annual fee of £150,000 payable to Treasury Holdings.

During 2007 Mr Ronan paid €669,725 to Carlovent Limited (a subsidiary of the Group) in consideration for the release of lands owned by Mr Ronan from a restrictive covenant held by Carlovent Limited.

On 6 July 2007 the Company entered into a share purchase agreement with CREO to sell the entire issued share capital of GEL, registered in the British Virgin Islands (BVI), to CREO. The consideration for the disposal was £16.9m comprising 2,132,941 CREO shares at £7.56 each and assignment to CREO of a £10.8m loan from GEL to the Company. The profit on disposal to the Group was £5.7m.

## **25. Post Balance sheet events**

### Exchange rates

The rate of exchange as at the year end was Euro/GBP of 1.0499. As at 23 March 2009, sterling had strengthened by 1.6% and the rate had moved to 1.0688. This modest movement would have negative but no significant effect on the Net Asset Value on the Group.

### Refinancings

In the period since the year end, the Group has continued its negotiations with its financial institutions. In the case of the final two renewals totalling £46.8m, which were in train as at 31 December, one has now been fully documented and the other has been fully approved by the bank's credit committee and will be documented in the coming weeks.

## 26. Subsidiary Undertakings

The company holds directly or indirectly 100% of the ordinary shares, unless otherwise indicated, of the following subsidiary undertakings:

<i>Subsidiary</i>	<i>Activity</i>	<i>Registered and incorporated and place of incorporation</i>
Real Estate Opportunities Investment Properties Limited	Property Investment	Jersey
Real Estate Opportunities Holdings Limited	Investment	Jersey
Jermyn Investment Properties Limited	Holding company	England and Wales
Jermyn Investment Co Limited *	Dormant	England and Wales
Jermyn Investment Company Holdings Limited *	Holding company	England and Wales
Berthel Developments Limited *	Property development and investment	Guernsey Channel Islands
Jermyn Developments Limited *	Property development and investment	Isle of Man
ELP Properties Limited *	Holding company	England and Wales
ELP Trading Limited *	Dormant	England and Wales
ELP Rentals Limited *	Dormant	England and Wales
ELP Sales Limited *	Dormant	England and Wales
ELP Residential Limited *	Property Investment	England and Wales
ELP Estates Limited *	Dormant	Northern Ireland
ELP Evesham Limited *	Dormant	England and Wales
ELP First Sales Limited *	Dormant	England and Wales
Lakebridge Commercial *	Holding company	Ireland
REO Luxembourg s.a.r.l.	Investment	Luxembourg
Coolred Limited	Property investment	Ireland
Kensell Green Limited	Property investment and development	Ireland
Mainford Limited	Property investment	Ireland
Montevetro I Limited	Property development	Ireland
Montevetro II Limited	Property development	Ireland
OKPTH Limited	Property investment	Ireland
Swinwood Limited	Property development	Ireland
Tamorbrick Limited (67%)	Property development	Ireland
<b>Castle Market Holdings Limited Subsidiary Undertakings</b>		
Castle Market Holdings Limited *	Holding company	Ireland
Achnasheen Limited *	Dormant	Ireland
Abbono Limited *	Property investment and development	Ireland
Achnasheen (Propco) Limited *	Property investment	Ireland
Achnasheen CMBS (Propco) Limited *	Property investment	Ireland

Alhans Limited *	Property investment and development	Ireland
Allenspark Limited * 50%	Property investment and development	Ireland
Alleycastle Limited *	Property investment and development	Ireland
Beatrock Properties Limited *	Property investment and development	Ireland
Beckton Properties Limited *	Property investment and development	Ireland
Belcherstown Limited *	Property Investment	Ireland
Benreef Limited *	Property development	Ireland
Bluetide Limited *	Investment holding	Ireland
Bluetone Properties Limited *	Property investment and development	Ireland
Bobbio Limited *	Dormant	Ireland
Bobbio (Propco) Limited *	Investment holding	Ireland
Bobbio CMBS (Propco) Limited *	Property investment	Ireland
Bracadale Limited *	Dormant	Ireland
Bracadale CMBS (Propco) Limited *	Property investment and development	Ireland
Candourity Limited *	Property investment and development	Ireland
Candourity CMBS (Propco) I Limited *	Property investment and development	Ireland
Candourity CMBS (Propco) II Limited *	Property investment	Ireland
Carlovent Limited *	Property investment and development	Ireland
Clarabrook Limited *	Property investment and development	Ireland
Colata Investments Limited *	Property investment and development	Ireland
Cragthorn Limited *	Dormant	Ireland
Cragthorn CMBS (Propco) Limited *	Property investment	Ireland
Croftwalk Limited *	Dormant	Ireland
Cubette Limited *	Holding company	Ireland
Decocter Limited *	Investment holding	Jersey
Diamond Bay Limited *	Property investment	Ireland
Eltisey (Propco) Limited *	Investment holding	Ireland
Eurodelta Limited *	Investment holding	Ireland
Everglade Properties Limited *	Property development	Ireland
Glamorama Limited *	Property investment and development	Ireland
Grimsdale Limited *	Property trading	Ireland
Hakaton Limited *	Property investment and development	Ireland
Hartsley Limited *	Dormant	Ireland

Hartsley CMBS (Propco) Limited *	Property investment and development	Ireland
Haybrook Limited *	Property investment and development	Ireland
Jindra Limited *	Property investment and development	Ireland
Lornabay Limited *	Property investment and development	Ireland
Lowestoft Limited * 50%	Property development	Ireland
Marske Limited *	Dormant	Ireland
Marske (Propco) Limited *	Property investment	Ireland
Marske CMBS (Propco) Limited *	Property investment and development	Ireland
Mattingley Limited *	Property development	Ireland
Movard Limited *	Property development	Ireland
Myrmidon Limited *	Property investment and development	Ireland
Myrmidon (Propco) Limited *	Dormant	Ireland
Myrmidon CMBS (Propco) Limited *	Property investment and development	Ireland
Oceanrock Limited *	Property investment	Ireland
Ordnance Limited *	Property investment	Ireland
Parshall Limited * 50%	Property development	Ireland
Perigee Limited *	Property investment.	Ireland
Pewley Limited *	Dormant	Ireland
Pewley (Propco) Limited *	Property investment	Ireland
Pewley CMBS (Propco) Limited *	Property investment	Ireland
Radtip Properties Limited * 50%	Property investment and development	Ireland
Rubysand Limited *	Dormant	Ireland
Sencode Limited *	Investment holding	Ireland
Simcrest Limited *	Property investment	Ireland
Soapstone Limited *	Property investment and development	Ireland
Stillorgan Enterprises Limited	Property Management	Ireland
Streamglen Limited *	Property investment	Ireland
Tandoori Rooms Limited *	Dormant	Ireland
Tandoori Rooms (Propco) Limited	Investment holding	Ireland
Tandoori Rooms CMBS (Propco) Limited *	Property investment	Ireland
Tapfield Limited *	Property investment and development	Ireland
Teaking Limited *	Property management	Ireland
Tenderbrook Limited *	Property investment and development	Ireland
Temple Holdings (Dublin) Limited *	Property investment and development	Ireland

Trobatch Limited *	Dormant	Ireland
Trobatch CMBS (Propco) Limited *	Property investment	Ireland
Volpine Limited*	Property management	Ireland
Westmoreland Property Company Limited *	Dormant	Ireland
Westmoreland Property Company (Propco) Limited *	Investment holding	Ireland
Westmoreland Property Company CMBS (Propco) Limited *	Investment holding	Ireland
Whimble Limited *	Dormant	Ireland
Whimble (Propco) Limited *	Property investment	Ireland
Whimble CMBS (Propco) Limited *	Property investment	Ireland
Wintertide Limited *	Property investment and development	Ireland
Yoda Limited *	Property investment	Ireland
Zdena Limited *	Property investment and development	Ireland

#### **Havenview Investments Limited subsidiary undertakings**

Havenview Investments Limited	Holding Company	Ireland
Ballymun Shopping Centre Limited	Property investment and development	Ireland
Eltisey Limited	Property investment and development	Ireland
Eltisey Two Limited	Property investment and development	Ireland
Lillesbrooke Limited*	Dormant	Ireland
Pageflyer Limited	Property investment	Ireland
Pageflyer Two Limited	Property investment	Ireland
Redswan Limited	Property Development	Ireland
Rigol Limited*	Property investment and development	Ireland
Sarahosta Limited	Property investment	Ireland
Silkbay Limited	Property investment and development	Ireland
Twynholm Limited	Property investment and development	Ireland

#### **Battersea Power Station Subsidiary Undertakings**

Headland Developments Limited *	Property development	British Virgin Islands
Halcyon Estates Limited *	Property development	British Virgin Islands
Kemp Town Limited *	Property development	British Virgin Islands
Lambhill Properties Limited *	Property development	British Virgin Islands
Oasis Park Limited *	Property development	British Virgin Islands
West Hotel Development Limited *	Property development	British Virgin Islands
Utilities Centre Development Limited *	Property development	British Virgin Islands
Car Parks Development Limited *	Property development	British Virgin Islands
Lattice Building Development Limited *	Property development	British Virgin Islands
East Hotel Development Limited *	Property development	British Virgin Islands
Theatre Development Limited *	Property development	British Virgin Islands
Twist Building Development Limited *	Property development	British Virgin Islands
Power Station Development Limited *	Property development	British Virgin Islands
REO (Bund) Limited	Property investment	Jersey

	and development	
REO (Powerstation) Limited *	Property investment	Jersey
	and development	
REO (Powerstation) UK Limited *	Property investment	England
	and development	
REO Site Assembly (Holdco) Limited *	Property investment	Jersey
	and development	
REO Site Assembly Limited *	Property investment	Jersey
	and development	
REO Stewarts Road (Holdco) Limited *	Investment	Jersey
REO Stewarts Road Limited *	Investment	Jersey
REO 8 Brookes Court (Holdco) Limited *	Investment	Jersey
REO 8 Brookes Court Limited *	Investment	Jersey
REO 88 Kirtling Street (Holdco) Limited *	Property investment	Jersey
	and development	
REO 88 Kirtling Street Limited *	Property investment	Jersey
	and development	
REO 2 Battersea Park Road (Holdco) Limited	Investment	Jersey
REO 2 Battersea Park Road Limited	Investment	Jersey
* <i>indirect holdings</i>		

Allenspark Limited, Lowestoft Limited, Parshall Limited and Radtip Properties Limited have been treated as subsidiary undertakings as the Group exercises dominant influence over the operating and financial policies.

## **27. Explanation of transition to IFRSs**

As stated in note 1(a), these are the Group's first consolidated financial statements which will be prepared in accordance with IFRSs.

The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the year ended 31 December 2008, the comparative information for the year ended 31 December 2007 and the preparation of the preliminary opening IFRS balance sheet at 1 January 2007 (the Group's date of transition).

In preparing its preliminary opening IFRS balance sheet and comparative information for the year ended 31 December 2007, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. The estimates and judgements under previous GAAP have not changed as part of this restatement process.

An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**27. Explanation of transition to IFRSs (continued)**  
**Reconciliation of Assets**

		Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
<i>In thousands of pounds sterling</i>	<i>Note</i>	<b>1 Jan 2007</b>			<b>31 Dec 2007</b>		
<b>Assets</b>							
Investment properties	<i>a</i>	424,508	63,469	487,977	750,561	172,100	922,661
Investment properties under development	<i>a</i>	-	655,421	655,421	-	853,777	853,777
Development properties	<i>a</i>	718,890	(718,890)	-	1,025,877	(1,025,877)	-
Investments in associate and joint venture	<i>e,i</i>	51,826	(8,813)	43,013	70,196	(15,364)	54,832
Trade and other receivables	<i>c</i>	5,615	1,194	6,809	4,968	2,650	7,618
Derivative financial instruments		2,024	-	2,024	14,529	(4,172)	10,357
Other investments – available for sale		4,695	-	4,695	586	-	586
<b>Total non-current assets</b>		<b>1,207,558</b>	<b>(7,619)</b>	<b>1,199,939</b>	<b>1,866,717</b>	<b>(16,886)</b>	<b>1,849,831</b>
Trade and other receivables	<i>c</i>	34,345	(433)	33,912	21,387	3,174	24,561
Cash and cash equivalents		100,807	-	100,807	76,386	-	76,386
Restricted cash		-	-	-	733	-	733
<b>Total current assets</b>		<b>135,152</b>	<b>(433)</b>	<b>134,719</b>	<b>98,506</b>	<b>3,174</b>	<b>101,680</b>
<b>Total assets</b>		<b>1,342,710</b>	<b>(8,052)</b>	<b>1,334,658</b>	<b>1,965,223</b>	<b>(13,712)</b>	<b>1,951,511</b>

## 27. Explanation of transition to IFRSs (continued)

### Reconciliation of equity and liabilities

	Note	Effect of transition to IFRSs		Previous IFRSs	Effect of transition to IFRSs		
		Previous GAAP	1 Jan 2007		Previous GAAP	31 Dec 2007	IFRSs
<i>In thousands of pounds sterling</i>							
<b>Liabilities</b>							
Interest-bearing loans and borrowings		985,273	-	985,273	1,250,611	-	1,250,611
Trade and other payables		822	-	822	7,187	-	7,187
Derivative financial instruments		-	-	-	1,294	(372)	922
Deferred tax liabilities	<i>f,g,j</i>	2,028	69,723	71,751	4,736	124,554	129,290
<b>Total non-current liabilities</b>		<b>988,123</b>	<b>69,723</b>	<b>1,057,846</b>	<b>1,263,828</b>	<b>124,182</b>	<b>1,388,010</b>
Interest-bearing loans and borrowings		25,641	-	25,641	99,607	-	99,607
Trade and other payables	<i>h</i>	53,155	4,898	58,053	42,133	6,391	48,524
Amounts owed to joint venture		6,738	-	6,738	-	-	-
Derivative financial instruments		-	-	-	-	372	372
<b>Total current liabilities</b>		<b>85,534</b>	<b>4,898</b>	<b>90,432</b>	<b>141,740</b>	<b>6,763</b>	<b>148,503</b>
<b>Total liabilities</b>		<b>1,073,657</b>	<b>74,621</b>	<b>1,148,278</b>	<b>1,405,568</b>	<b>130,945</b>	<b>1,536,513</b>
<b>Net assets</b>		<b>269,053</b>	<b>(82,673)</b>	<b>186,380</b>	<b>559,655</b>	<b>(144,657)</b>	<b>414,998</b>
<b>Equity</b>							
Issued capital		2,530	-	2,530	3,338	-	3,338
Share premium		285,448	-	285,448	405,747	-	405,747
Reserves other	<i>d,e,j</i>	18,411	(15,213)	3,198	80,077	(24,114)	55,963
Property revaluation reserve	<i>a,b,e</i>	97,531	(97,531)	-	186,314	(182,518)	3,796
Retained earnings/(losses)	<i>a,b,c,d,e,f,g</i>	(136,438)	30,401	(106,037)	(123,977)	63,794	(60,183)
<b>Total equity attributable to equity holders of the parent</b>		<b>267,482</b>	<b>(82,343)</b>	<b>185,139</b>	<b>551,499</b>	<b>(142,838)</b>	<b>408,661</b>
<b>Minority interest</b>		<b>1,571</b>	<b>(330)</b>	<b>1,241</b>	<b>8,156</b>	<b>(1,819)</b>	<b>6,337</b>
<b>Total equity</b>		<b>269,053</b>	<b>(82,673)</b>	<b>186,380</b>	<b>559,655</b>	<b>(144,657)</b>	<b>414,998</b>

**27. Explanation of transition to IFRSs (continued)**  
**Notes to the reconciliation of equity**

(a) Investment properties

Consistent with the requirements of IFRS, REO has distinguished between investment properties and those classified as development properties under previous GAAP. The effect is a reclassification adjustment from development properties to investment properties and investment properties under development of £719m at 1 January 2007 and £1,026m at 31 December 2007.

Consistent with REO's accounting policy and IFRS, investment properties have been recognised at fair value at the date of transition to IFRS. Subsequent movements in the fair value of the investment properties are recognised in profit or loss. Under previous GAAP, this movement was recognised in a revaluation reserve. The effect is an adjustment of £98m between revaluation reserve and retained earnings at 1 January 2007 and between revaluation reserve and the income statement of £85m at 31 December 2007 (including £14m in respect of the joint venture at 31 December and £12m in respect of the associate at 31 December 2007).

(b) Capitalised borrowing costs

Consistent with the requirements of IFRS, borrowing costs on non-qualifying assets, capitalised under previous GAAP, are expensed in the income statement. This adjustment has no impact on net assets as the increase in borrowing costs is offset by a corresponding increase in valuation gains on investment property of £8.6m in the year to 31 December 2007.

(c) Operating lease incentives

Consistent with IFRS, operating lease incentives are amortised over the term of the lease. Under previous GAAP, operating lease incentives were amortised over the period to the next rent review, typically five years. The effect is an adjustment of £0.8m between trade and other receivables and retained earnings at 1 January 2007 and between trade and other receivables and property income of £0.9m at 31 December 2007.

(d) Foreign currency translation reserve ("FCTR")

At 1 January 2007 the FCTR balance was transferred to retained earnings as the Group applied the voluntary exemption permitting the reset of cumulative translation differences to zero. The effect is a reclassification between retained earnings and the FCTR of £15.2m at 1 January 2007 and 31 December 2007.

(e) Investment in associate

Under previous GAAP, the Company accounted for the movement in fair value of its associate's investment and development properties through a revaluation reserve. Consistent with the requirements of IFRS, the Company now accounts for the movement in fair value of investment properties in its associate through the income statement and for its share of development properties through a revaluation reserve. The effect of this is a reclassification of £14m between revaluation reserve and profit or loss at 31 December 2007. Consistent with the requirements of IFRS, the Company has provided for deferred tax on its share of the revaluation gains on the properties held by the Group's associate which was not recognised under previous GAAP. The effect is a decrease in the Company's investment and an increase in the Associate's tax charge by £3m. As a result of this, the Company's share of its associate's currency translation reserve has decreased by £2m.

(f) Deferred Tax

Consistent with the requirements of IFRS, a deferred tax liability, which was not recognised under previous GAAP, has been recognised at the date of transition to IFRS. On transition to IFRS, deferred tax liabilities increased primarily due to valuation gains on investment properties. An adjustment of £70m was recognised at 1 January 2007 and £11m at 31 December 2007. The effect on the income statement for the year ended 31 December 2007 was to increase the previously reported tax charge by £15m.

**27. Explanation of transition to IFRSs (continued)**  
**Notes to the reconciliation of equity (continued)**

(g) Business combinations

The Company has applied the voluntary exemption in IFRS 3: *Business Combinations* and has not restated business combinations prior to transition to IFRS. Business combinations since 1 January 2007 have been restated. The effect of this at the date of acquisition is the recognition of a deferred tax liability of £40m, increase in the fair value of the properties acquired by £27m and a decrease in minority interests of £1.4m.

(h) Current tax payable

Current tax payable has increased as a result of providing for tax in respect of a potential surcharge in the event that the Company was considered to be a close company for Irish tax purposes.

(i) Investment in Joint Venture

Consistent with the requirements of IFRS, the Company has provided for deferred tax on its investment in its Joint Venture which was not recognised under previous GAAP. The effect is a decrease in the Company's investment and an increase in the Joint Venture's tax charge by £8.8m at 1 January 2007. Under previous GAAP, the Company accounted for the movement in the fair value of its Joint Venture investment and development properties through a revaluation reserve. Consistent with the requirements of IFRS, the Company now accounts for the movement in fair value of investment properties and investment properties under development in its Joint Venture through the income statement. The effect of this is an increase in the profit of the Joint Venture of £14m for the year ended 31 December 2007.

(j) Foreign currency

The impact of the retranslation of the Euro denominated deferred tax liability at 31 December 2007 was £7m.

(k) The effect of the above adjustments on retained earnings/(accumulated losses) is as follows:

In thousands of pounds sterling	1 Jan 2007	31 Dec 2007
<b>Accumulated losses under previous GAAP</b>	<b>(136,438)</b>	<b>(123,977)</b>
<b>Investment property revaluation reserves</b>	<i>a,b</i> 97,531	182,518
<b>Reclassification of FCTR</b>	<i>d</i> 15,213	15,213
<b>Foreign currency</b>	<i>j,e</i> -	8,901
<b>Operating lease incentives</b>	<i>c</i> 761	1,652
<b>Deferred tax</b>	<i>f,g,j</i> (69,723)	(124,554)
<b>Current tax payable</b>	<i>h</i> (4,898)	(6,391)
<b>Investment in joint venture</b>	<i>i</i> (8,813)	-
<b>Investment in associate</b>	<i>e</i> -	(15,364)
<b>Minority Interest</b>	<i>g</i> 330	1,819
<b>Accumulated losses under IFRS</b>	<b>(106,037)</b>	<b>(60,183)</b>

**27. Explanation of transition to IFRSs (continued)**  
**Reconciliation of profit for 2007**

<i>In thousands of pounds sterling</i>	<i>Note</i>	Previous GAAP	Effect of transition To IFRSs	IFRSs
		For the year ended 31 Dec 2007		
Property income		19,169	893	20,062
Valuation gains on investment properties and investment properties under development	<i>a, b</i>	-	23,175	23,175
Profit on disposal of investment property under development		3,577	-	3,577
Profit on disposal of asset		5,708	-	5,708
Management fee		(13,236)	-	(13,236)
Administrative expenses		(12,128)	-	(12,128)
Other income		53,195	-	53,195
<b>Net operating profit before financing costs</b>		<b>56,285</b>	<b>24,068</b>	<b>80,353</b>
Financial income		3,699	9,587	13,286
Financial expenses	<i>b</i>	(37,374)	(12,702)	(50,076)
<b>Net financing income/(expense)</b>		<b>(33,675)</b>	<b>(3,115)</b>	<b>(36,790)</b>
Share of profit/(loss) in associate	<i>e</i>	(1,126)	7,928	6,802
Share of profit in joint venture	<i>i</i>	4,103	6,906	11,009
<b>Profit/(loss) before tax</b>		<b>25,587</b>	<b>35,787</b>	<b>61,374</b>
Income tax expense	<i>f, h</i>	(3,564)	(7,364)	(10,928)
<b>Profit for the period</b>		<b>22,023</b>	<b>28,423</b>	<b>50,446</b>
<b>Attributable to:</b>				
Equity holders of the parent		22,023	28,463	50,486
Minority interest		-	(40)	(40)
<b>Profit for the period</b>		<b>22,023</b>	<b>28,423</b>	<b>50,446</b>
Basic earnings per share (pence)		8.3	10.8	19.1
Diluted earnings per share (pence)		8.1	7.8	15.9

**27. Explanation of transition to IFRSs (continued)**

**Explanation of material adjustments to the cash flow statement**

Other than presentation, there are no material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under previous GAAP.