

Real  
Estate  
Opportunities

Interim Report

Six months to 30 June 2006



# Contents

2	Key Facts and Financial Information
3	Chairman's Statement
8	Property Portfolio
10	Securities Portfolio
11	Financial Results
19	Independent Review Report
20	Corporate Information

## Key Facts and Financial Information

### Key Facts

Real Estate Opportunities Limited is a closed-end investment Company incorporated with limited liability in Jersey. The Company's securities are listed on the London, Irish and Channel Islands Stock Exchanges.

The Company's capital structure comprises Ordinary and Zero Dividend Preference shares and units of 7.5% Convertible Unsecured Loan Stock 2011. The Group also has gearing in the form of bank borrowings and a multiple property securitisation of €375 million together with a €50 million junior loan.

### Investment Objectives

The Company's stated investment objectives are to: meet its banking obligations and satisfy its obligations to its loan stockholders; satisfy the final capital entitlement of the Zero Dividend Preference shareholders; and provide Ordinary shareholders with capital growth and income by means of a progressive dividend policy. The portfolio is currently principally invested in the Dublin property market.

### Financial Information

	<i>At</i>	<i>At</i>	
	<i>30 June</i>	<i>31 December</i>	<i>%</i>
	<i>2006</i>	<i>2005</i>	<i>Change</i>
	<i>£'000</i>	<i>£'000</i>	
Fixed assets	<b>762,914</b>	718,668	+6.2
Net debt (excluding Zero Dividend Preference Shareholders' Entitlement but including 7.5% Convertible Unsecured Loan Stock 2011 and net of cash)	<b>392,677</b>	402,452	-2.4
Net assets	<b>238,900</b>	184,453	+29.5

### Ordinary shares:

Net asset value	<b>94.4p</b>	72.9p	+29.5
Mid-market price	<b>98.8p</b>	76.3p	+29.5

### Zero Dividend Preference shares:

Net asset value	<b>154.2p</b>	147.7p	+4.4
Mid-market price	<b>155.3p</b>	145.0p	+7.1

### 7.5% Convertible Unsecured Loan Stock 2011:

Mid-market price	<b>120.3p</b>	112.8p	+6.6
Euro: £ exchange rate	<b>1.4465</b>	1.4554	

# Chairman's Statement

## Introduction

Following your Company's excellent achievement last year, I am very pleased to report that strong performance has continued for the first six months of this calendar year. As a result, net assets per ordinary share have effectively doubled in the last eighteen months to 30 June 2006.

In the six-month period ending 30 June 2006, net asset value per ordinary share increased from 72.9p to 94.4p, an uplift of over 29%. The main drivers of this strong performance have been: the disposal of the Group's interest in the Aldi Site at Sandyford, Co Dublin at a substantial profit and a significant increase in the value of the Company's investment portfolio prompted in particular by tightening of yields in the Dublin office market, which accounts for more than 44% of REO's Irish property portfolio.

The Board has decided to declare an interim dividend of 1p per ordinary share, payable on 3 November 2006 to shareholders on the register on 6 October 2006, with an ex-dividend date of 4 October 2006.

Further good news has emerged since the end of the period under review, with the grant of planning consent for the redevelopment of the Stillorgan Shopping Centre in Dublin, one of the Company's major assets.

Against this background and mindful of the property development opportunities available to REO, the Board is examining the potential benefits of converting REO into a property company from its current status as an investment company.

## Irish Property Portfolio

The first half of the year recorded strong growth in the value of the Irish property portfolio and has been the primary factor in the growth in the net asset value per share over the period. The total value of the portfolio, including interests in properties held in joint ventures and after the effect of disposals during the period, grew to €1.136 billion as at 30 June 2006.

Most of the growth during the period was driven by an increase in the value of the Company's investment properties, prompted in particular by the tightening of investment yields in the Dublin office market. The Company also generated a substantial profit from the disposal of the Group's interest in a large development site at Sandyford in South County Dublin.

Other significant transactions during the period included closing the disposal of the Group's interest in the Allegro site, also in Sandyford. This transaction had been contracted late in 2005 and closed early in the current year. Another transaction which had been contracted in 2005 and which closed during the current period was the acquisition of a substantial parcel of land zoned for a Town Centre development in Collinstown in West Dublin. In addition we successfully negotiated the acquisition of a small property at 97 St. Stephens Green. This is a Georgian office building, adjoining our Russell Court property and is now on the market to let on a short-term basis.

## Chairman's Statement *(continued)*

We have managed to progress a number of our larger development projects during the period, including reaching Practical Completion in respect of the 60,000 sq. ft. office development at Barrow Street in Dublin. This development, which was pre-let to the major Dublin legal firm Mason Hayes & Curran, was acquired during 2005 and was completed on time and within budget in February of this year.

Progress in relation to the site adjoining the new Mason Hayes & Curran building included the agreement entered into with Treasury Holdings for Treasury to hand over vacant possession of the building, which they have occupied as their Dublin offices for many years. This agreement, together with the surrender of a long lease on another adjoining building, clears the way for our undertaking a major development on this exciting site. Detailed designs of a scheme proposed for this site have been in the course of preparation for some time and an application to the planning authority, which will include a 26 storey tower overlooking the Grand Canal Dock, is due to be lodged with Dublin City Council in the near future.

A decision of the Planning Appeals Board in respect of our application to refurbish and extend Stillorgan Shopping Centre had been expected during the period. In the event the decision was not issued until August and we are pleased to say that we have finally secured full planning permission for the works to the Centre. In the meantime, we have engaged in a broad-ranging community planning process. The outputs of this master planning exercise have been submitted to the Planning Authority for consideration as it develops the Local Area Plan which covers the wider Stillorgan area, extending beyond the shopping centre and including our other holdings in Stillorgan, such as the Leisureplex and Blake's sites. No decision will be made with regard to implementing the Planning Approval we have now received until this planning process is completed and it is expected that this should be done before the end of the current year.

During the period, we have also progressed the negotiations with the Local Planning Authority in respect of our Balgaddy site at Clondalkin in West Dublin. Once again, we were happy to report that we have now secured the agreement of the Planning Authority to designate our site, as well as adjoining lands, as a Strategic Development Zone. The effect of this under Irish Planning Legislation is to adopt a Master Plan for a designated area, such that any subsequent Planning Application lodged within that area can be fast-tracked so long as it is compliant with the Master Plan. This effectively means that there is no risk of a Third Party reference to the Planning Appeals Board.

Projects where we have not been successful in securing planning permission include the site of a large office building at Central Park in Leopardstown. We are currently appealing this refusal to the Planning Appeals Board. We were also refused Planning Approval for Phase 1 of our residential scheme at Enniskerry in Co. Wicklow and once again are appealing this refusal.

This has also been a busy period in relation to the Company's Investment Portfolio. We are pleased to report a number of new lettings in Stillorgan Shopping Centre during the year, a small number of rent reviews were also settled in the Centre during the period and they continue to show good growth over the previous rent passing.

At 35 Henry Street we have agreed terms to accept a surrender of the leasehold interest in this property and to re-let the premises on a new lease at a rent of €425,000 per annum or 75% more than last year's rent. This indicates the continued buoyancy in the prime retail market.

Other lease renegotiations which have enhanced the value of the portfolio include the acceptance of a surrender of leases for two floors in Block D, Russell Court with the immediate re-letting of those floors to KPMG at enhanced rents and on a lease term, the expiry of which will coincide with the main leases which KPMG have in respect of their other holdings in Russell Court.

The total rent roll of the Irish property portfolio, including interests in properties held in joint ventures, increased from €32.65 million at 31 December 2005 to €34.59 million at 30 June 2006. The newly tenanted Mason Hayes & Curran building provides rent of €2.88 million with the disposal of the Group's interest in the Aldi site at Sandyford, Co Dublin giving a reduction of €0.84 million in rent.

### **Irish Economic Overview**

The strong performance of the Irish Economy over the past few years has carried into the first half of 2006 with growth forecast by the Economic and Social Research Institute ("ESRI") of 5.6% for the full calendar year.

This growth is being fuelled by strong consumer expenditure and a healthy property market. With the economy close to full employment, the unemployment rate remains one of the lowest in the E.U. at approximately 4.4%. The increase in Euro interest rates during the period was well heralded and thus has had little impact on consumer confidence. However, it is expected that, with further rises in rates anticipated over the next 6-12 months, there will be a slight moderation in the overall rate of growth.

### **Irish Property Market**

Against this economic background, the first half of 2006 was a period of further strong growth in the Irish Property Market with the Society of Chartered Surveyors/Investment Property Databank ("IPD") Index producing a total return over the 6 month period of 13.8%. The total return for the 12 months to the end of June 2006 was 29.5%, the highest for over 5 years. This growth has been driven primarily by a hardening in investment yields over the period with the IPD all property equivalent yield now at 4.43% in June 2006, down from 5.35% in June of last year.

The best performing segment of the Irish property market during the first half of 2006 was the office sector, within which 44% of REO's Irish property portfolio lies. Activity in the Dublin office market is continuing to be high with a strong level of take-up recorded for the first half of the year, up 6% on take-up levels during the corresponding period in 2005. Whilst the vacancy rate eased over the period, it remains high compared with traditional levels, with an overall vacancy rate of approximately 16.5%. The suburbs account for over half of all available space with Dublin city centre closer to market equilibrium. Despite oversupply in the market, the pace of construction activity has increased with over 300,000 sq. m. of accommodation currently under construction. The bulk of this new construction is located in the prime city centre areas, where tenant demand is strongest: it is expected that overall activity in the office sector will rise further during the remainder of the year as both new and existing occupiers seek additional space.

## Chairman's Statement *(continued)*

Office rents of between €590 and €650 per sq. m. have been achieved in Dublin 2 and 4 postcodes and the Docklands area and tenant incentives are declining, indicating that the underlying level of rental growth is somewhat higher than the headline level of growth. Suburban schemes vary considerably depending on location, with rental levels of between €160 and €270 per sq. m. being achieved. The professional and financial sectors have been the most active occupiers during the first half of the year, with IT and Telecommunications companies also active. Prime yields in the office sector now stand at around 4.25% however a small number of recent office investment transactions have occurred at yields below 3%.

The retail sector also continues to perform strongly, with a total return of 20.3% for the 12 months to the end of June 2006. 24.7% of REO's Irish property portfolio is classed as retail space.

Strong retail spending has been boosted by the release of the Special Savings Incentive Account ("SSIA") monies during the course of this year and next year and recent interest rate increases do not appear to have affected sales activity. The ESRI is projecting consumer expenditure to rise by over 6% during the course of 2006 and, as has been the case for some time now, international retailers continue to compete strongly with domestic players for the limited prime retail opportunities which come to the market.

The industrial sector in Dublin continued to strengthen during the second quarter of 2006. The vacancy rate for the industrial market fell to around 7.4% as at end June 2006. This is the lowest vacancy rate recorded in 5 years and is due to the fact that there has been growing occupier demand, combined with relatively limited new speculative development activity. In addition, many of the older traditional industrial locations are being redeveloped for higher value uses.

The completion of the Dublin Port Tunnel later this year will significantly boost the industrial market in the North Dublin Area and this will substantially benefit industrial properties located along the M1 and M50 motorway locations.

The Irish housing market has also continued to enjoy buoyant conditions with house price inflation running at a level of 15% for the 12 months to June. This continued growth is fuelled by the buoyancy of the economy, above trend employment growth and strong immigration drawn by a healthy labour market. Despite recent upward movements in interest rates, overall borrowing rates remain very low both in relative terms and in real terms.

The European Central Bank increased rates from 2.75% to 3% in August 2006 and further increases are expected. The view is however, that the Irish Property Market will continue to perform strongly on the back of positive economic conditions.

### **UK Property Portfolio**

The Company's realisation of its UK property investment portfolio is now nearly complete with only one asset remaining.

## **Financing**

As reported in the 2005 Annual Report, during the period under review, the Company completed a Commercial Mortgage Backed Securitisation, the first ever secured solely on Irish properties, when it raised a €375 million bond from the capital markets, and a €50 million junior loan from an Irish bank.

The £40 million loan from the Company to Havenview Investments Limited was repaid in the period and following these transactions and the disposal of the Group's interest in the Aldi site, at Sandyford, Co Dublin reported above, the Group's cash balances at the end of the period amounted to some £141 million. Overall bank indebtedness amounted to approximately £467 million. Both the cash balances and bank indebtedness amounts above include REO's share of cash and debt in joint ventures.

## **Litigation**

The Company continues to seek compensation for the substantial losses suffered by the Company in its income portfolio in 2001 and 2002. Proceedings have been served on Aberdeen Asset Managers Jersey Limited, Aberdeen Asset Management Limited and UBS Limited. The parties have served their statements of claim and a trial date has been set for May 2007.

## **Outlook**

Your Company's concentration on Ireland has served it well, as Irish property has continued to outperform most other countries in Europe, reflecting sustained economic growth in Ireland. Consensus forecasts for the Irish property market remain strong and I am confident that the Company is well positioned to take full advantage. The disposal of the Group's interest in the Aldi site at Sandyford, Co.Dublin at such a substantial profit, without any development having been undertaken, underlines our confidence in the quality of the Company's development portfolio.

We continue to explore opportunities which will play to the strengths of the Company's management team and are actively looking for potential acquisitions both within and outside of Ireland to enable your Company to broaden its base.

**RYF Horney**  
Chairman

28 September 2006

## Property Portfolio

### **Irish Properties Excluding Havenview\* Properties**

#### **Properties with a market value above £10,000,000**

<i>Location of property</i>	<i>Sector</i>
Balbriggan, Co Dublin	Development
Barrow Street, Dublin	Development
Enniskerry, Co Wicklow	Development
Land at Glendruid, Cabinteely, Co Dublin	Development
Lands at Lehaunstown Lane, Cabinteely, Co Dublin	Development
Marks & Spencer, Merchant's Quay Shopping Centre, Cork	Retail
Stillorgan Shopping Centre, Stillorgan, Dublin	Retail
40-42 Mespil Road, Dublin 4	Office
Baggot Building, Upper Baggot Street, Dublin 2	Office
Blocks A-D Russell Court, Dublin 2	Office
Tedcastle Site, North Wall Quay, Dublin 1	Development
Lands at Balgaddy, Clondalkin	Development
Lands at Kinsealy, Co Dublin	Development
Nazareth Lands, Sligo	Development
Collinstown, Co Kildare	Development
Lad Lane, Dublin 2	Development
Leisureplex, Stillorgan, Dublin	Development

#### **Properties with a market value between £1,000,000 and £10,000,000**

<i>Location of property</i>	<i>Sector</i>
35 Henry Street, Dublin	Retail
Charlemont House, Charlemont Place, Dublin 2	Office
3 College Green, Dublin 2	Office/Development
Crescent Hall, Mount Street Crescent, Dublin 2	Office
41 St Stephen's Green, Dublin 2	Office
Lands at East Mountain, Howth, Dublin 13	Development
16 Westmoreland Street, Dublin 2	Retail
Houses at Stillorgan, Dublin	Residential
97 St Stephen's Green, Dublin 2	Office
18 Fleet Street, Dublin	Retail

#### **Properties with a market value between £500,000 and £1,000,000**

<i>Location of property</i>	<i>Sector</i>
Rear of 22 St Stephen's Green, Dublin 2	Development

## **Havenview\* Properties**

### **Properties with a market value above £10,000,000**

#### *Location of property*

*Sector*

Blakes Restaurant, Lower Kilmacud Road, Stillorgan, Dublin

Office/Retail

Central Park, Leopardstown, Dublin 18

(50% owned by Havenview)

Development/Office

43-49 Mespil Road, Dublin 4

Office

Ballymun Shopping Centre, Dublin 11

Retail

*\*Havenview Investments Limited ("Havenview") is a joint venture company owned 50% by Real Estate Opportunities Limited and 50% by Treasury Holdings.*

## **UK Property**

### **Property with a market value between £1,000,000 and £3,500,000**

#### *Location of property*

*Sector*

Units 15 & 16 Chesford Grange and 6 Hardwick Grange, Warrington

Industrial

## Securities Portfolio

*Holdings are sterling dominated ordinary shares unless otherwise indicated*

### Securities Portfolio

<i> Holding</i>	<i> Description</i>	<i> Market Value  £'000</i>	<i> % of  Securities  Portfolio</i>
3,188,029	Enhanced Zero Trust	12	0.2
9,593,333	Investment Trust of Investment Trusts A Redeemable	10	0.2
2,000,000	Gartmore Absolute Growth and Income Trust	2	–
	<b>Total Investment Company Investments</b>	<b>24</b>	<b>0.4</b>
4,800,000	China Real Estate Opportunities S.A.	4,086*	82.2
740,732	Netia Series 'H' Polish Zloty	559	11.3
128,100	Avery Weigh Tronics US\$	302	6.1
	<b>Total Securities Portfolio Investments</b>	<b>4,971</b>	<b>100.0</b>

\*The Company's holding in China Real Estate Opportunities Trust S.A. ("CREO") continues to be held at the subscription price on a prudent basis, taking account of the restrictions on sale by the Company, the size of Real Estate Opportunities Limited's holding and the limited liquidity in CREO shares.

### Summary of Securities Portfolio

	<b>30 June 2006 £'000</b>	<b>30 June 2005 £'000</b>	<b>31 December 2005 £'000</b>
Total Investment Company Investments	24	4,402	5,300
Property Company Investments	4,086	–	4,086
Bond Investments	–	1,125	1,500
Other Investments	861	816	1,073
	<b>4,971</b>	<b>6,343</b>	<b>11,959</b>

## Summarised Consolidated Balance Sheet

	<b>30 June 2006 (Unaudited) £'000</b>	<b>30 June 2005 (Unaudited) £'000</b>	<b>31 December 2005 (Audited) £'000</b>
<b>Fixed assets</b>			
<b>Tangible assets</b>			
Investment and development properties	696,671	499,522	655,123
<b>Investments</b>			
Share of gross assets in Joint Venture	112,178	86,742	123,131
Share of gross liabilities in Joint Venture	(50,906)	(67,509)	(71,545)
Interest in Joint Venture	61,272	19,233	51,586
Listed investments	4,971	6,343	11,959
	<b>762,914</b>	<b>525,098</b>	<b>718,668</b>
<b>Current assets</b>			
Debtors due after one year	6,345	44,013	9,845
Debtors due within one year	12,260	11,788	49,739
Cash at bank	125,562	78,056	23,663
	<b>144,167</b>	<b>133,857</b>	<b>83,247</b>
<b>Creditors: amounts falling due within one year</b>	<b>(130,847)</b>	<b>(54,342)</b>	<b>(141,054)</b>
<b>Net current assets/(liabilities)</b>	<b>13,320</b>	<b>79,515</b>	<b>(57,807)</b>
<b>Total assets less current liabilities</b>	<b>776,234</b>	<b>604,613</b>	<b>660,861</b>
<b>Creditors: amounts falling due after one year</b>			
7.5% Convertible Unsecured Loan Stock 2011	(101,143)	(101,143)	(101,143)
Bank loans	(347,327)	(273,673)	(275,818)
Zero Dividend Preference Shareholders' entitlement	(89,043)	(81,696)	(85,321)
Derivative financial instruments	2,686	(16,052)	(11,817)
	<b>(534,827)</b>	<b>(472,564)</b>	<b>(474,099)</b>
<b>Provisions for liabilities</b>	<b>(2,507)</b>	<b>(2,098)</b>	<b>(2,309)</b>
<b>Net assets</b>	<b>238,900</b>	<b>129,951</b>	<b>184,453</b>
<b>Capital and reserves</b>			
Called up share capital	2,530	2,530	2,530
Share premium account	284,928	285,042	284,928
Other capital reserves	(118,493)	(222,448)	(171,883)
Revenue reserve	69,767	64,955	68,931
Total Shareholders' funds	238,732	130,079	184,506
Minority interests	168	(128)	(53)
<b>Shareholders' funds</b>	<b>238,900</b>	<b>129,951</b>	<b>184,453</b>
<b>Net asset value per share</b>			
<b>Ordinary shares</b>	<b>94.4p</b>	<b>51.4p</b>	<b>72.9p</b>
<b>Zero Dividend Preference shares</b>	<b>154.2p</b>	<b>141.5p</b>	<b>147.7p</b>

## Consolidated Income Statement and Consolidated Statement of Total Recognised Gains and Losses

	<i>For the Six months ended 30 June 2006</i>		
	<i>(Unaudited)</i>		
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Consolidated Income Statement</b>			
Gains on investments	–	1,892	1,892
Exchange rate movements	(94)	–	(94)
Income	10,721	–	10,721
Management fee	(340)	(5,549)	(5,889)
Other expenses	(2,853)	–	(2,853)
<b>Group net return before finance costs and taxation</b>	<b>7,434</b>	<b>(3,657)</b>	<b>3,777</b>
Share of operating profit/(loss) in Joint Venture	27	(115)	(88)
Interest payable and similar charges			
– Group	(1,897)	(5,690)	(7,587)
– Joint Venture	(153)	(460)	(613)
– Zero Dividend Preference shares	–	(3,722)	(3,722)
	(2,050)	(9,872)	(11,922)
<b>Return on ordinary activities before tax</b>	<b>5,411</b>	<b>(13,644)</b>	<b>(8,233)</b>
Tax on ordinary activities	(874)	(1,873)	(2,747)
<b>Return on ordinary activities after tax for the financial period</b>	<b>4,537</b>	<b>(15,517)</b>	<b>(10,980)</b>
Minority interest	–	(221)	(221)
<b>Transfer to reserves</b>	<b>4,537</b>	<b>(15,738)</b>	<b>(11,201)</b>
<b>Return per Ordinary share – note 4</b>			
<b>Ordinary shares – basic</b>	<b>1.8p</b>	<b>(6.2)p</b>	<b>(4.4)p</b>
<b>Zero Dividend Preference shares</b>	<b>–</b>	<b>6.4p</b>	<b>6.4p</b>
<b>Consolidated Statement of Total Recognised Gains and Losses</b>			
Gains on investment and development properties – Group	–	49,136	49,136
– Joint Venture	–	10,092	10,092
Exchange rate movements	–	2,189	2,189
Cash flow hedges	–	–	–
Other recognised gains and losses	–	61,417	61,417
Income attributable to Ordinary shareholders	4,537	(15,738)	(11,201)
<b>Total recognised gains and losses</b>	<b>4,537</b>	<b>45,679</b>	<b>50,216</b>

	Six months ended 30 June 2005			Year ended
	(Unaudited)			31 December
	Revenue	Capital	Total	Total
£'000	£'000	£'000	£'000	2005 (Audited)
<b>Consolidated Income Statement</b>				
Gains on investments	–	67	67	1,619
Exchange rate movements	214	–	214	135
Income	12,026	–	12,026	23,791
Management fee	(376)	(1,129)	(1,505)	(14,058)
Other expenses	(1,475)	–	(1,475)	(3,425)
<b>Group net return before finance costs and taxation</b>	<b>10,389</b>	<b>(1,062)</b>	<b>9,327</b>	<b>8,062</b>
Share of operating loss in Joint venture	(891)	(100)	(991)	(433)
Interest payable and similar charges				
– Group	(2,479)	(7,436)	(9,915)	(19,703)
– Joint Venture	(272)	(815)	(1,087)	(3,326)
– Zero Dividend Preference shares	–	(3,415)	(3,415)	(7,040)
	(2,751)	(11,666)	(14,417)	(30,069)
<b>Return on ordinary activities before tax</b>	<b>6,747</b>	<b>(12,828)</b>	<b>(6,081)</b>	<b>(22,440)</b>
Tax on ordinary activities	(460)	–	(460)	(2,085)
<b>Return on ordinary activities after tax for the financial period</b>	<b>6,287</b>	<b>(12,828)</b>	<b>(6,541)</b>	<b>(24,525)</b>
Minority interest	–	6	6	18
<b>Transfer to reserves</b>	<b>6,287</b>	<b>(12,822)</b>	<b>(6,535)</b>	<b>(24,507)</b>
<b>Return per Ordinary share – note 4</b>				
<b>Ordinary shares – basic</b>	<b>2.9p</b>	<b>(6.0)p</b>	<b>(3.1)p</b>	<b>(10.4)p</b>
<b>Zero Dividend Preference shares</b>	<b>–</b>	<b>5.9p</b>	<b>5.9p</b>	<b>12.2p</b>

## Consolidated Statement of Total

### Recognised Gains and Losses

Gains on investment and development				
properties – Group	–	19,630	19,630	50,740
– Joint Venture	–	16,262	16,262	50,170
Exchange rate movements	–	(10,304)	(10,304)	(5,861)
Cash flow hedges	–	(3,107)	(3,107)	2,550
Other recognised gains and losses	–	22,481	22,481	97,599
Income attributable to Ordinary shareholders	6,287	(12,822)	(6,535)	(24,507)
<b>Total recognised gains and losses</b>	<b>6,287</b>	<b>9,659</b>	<b>15,946</b>	<b>73,092</b>

## Consolidated Reconciliation of Movements in Shareholders' Funds

	<i>Share Capital £'000</i>	<i>Share Premium £'000</i>	<i>Other Capital Reserves £'000</i>	<i>Revenue Reserve £'000</i>	<i>Total £'000</i>
Balance as at 1 January 2005	1,970	254,552	(232,380)	58,947	83,089
Issue of new shares	839	48,228	–	–	49,067
Purchase of own shares	(279)	(16,056)	279	(279)	(16,335)
Cost of issue of new shares	–	(1,836)	–	–	(1,836)
Conversion of loan stock	–	40	–	–	40
Dividends	–	–	–	(2,530)	(2,530)
Income attributable to					
Ordinary shareholders	–	–	135	12,856	12,991
Net capital return	–	–	60,083	–	60,083
Transfer to minority interest	–	–	–	(63)	(63)
<b>Balance at 31 December 2005</b>	<b>2,530</b>	<b>284,928</b>	<b>(171,883)</b>	<b>68,931</b>	<b>184,506</b>
Dividends	–	–	–	(3,795)	(3,795)
Income attributable to					
Ordinary shareholders	–	–	(94)	4,631	4,537
Net capital return	–	–	45,679	–	45,679
Termination of cash flow hedges	–	–	7,805	–	7,805
<b>Balance at 30 June 2006</b>	<b>2,530</b>	<b>284,928</b>	<b>(118,493)</b>	<b>69,767</b>	<b>238,732</b>

## Consolidated Cash Flow Statement

	<b>Six Months to 30 June 2006 (Unaudited) £'000</b>	<b>Six Months to 30 June 2005 (Unaudited) £'000</b>	<b>Year to 31 December 2005 (Audited) £'000</b>
<b>Operating activities</b>			
Investment income received	1,380	1,540	2,288
Cash received from tenants	9,106	9,294	18,206
Overheads and other cash payments	(18,682)	(4,125)	(6,655)
<b>Net cash inflow from operating activities</b>	<b>(8,196)</b>	<b>6,709</b>	<b>13,839</b>
<b>Returns on investments and servicing of finance</b>	<b>31,313</b>	<b>(6,719)</b>	<b>(14,455)</b>
<b>Taxation</b>	<b>(1,732)</b>	<b>(936)</b>	<b>(1,628)</b>
<b>Capital expenditure and financial investment</b>	<b>(4,366)</b>	<b>(21,365)</b>	<b>(92,306)</b>
<b>Equity dividends paid</b>	<b>(3,795)</b>	<b>–</b>	<b>(2,530)</b>
<b>Cash inflow/(outflow) before financing</b>	<b>13,224</b>	<b>(22,311)</b>	<b>(97,080)</b>
<b>Financing</b>			
New debt	340,583	15,856	37,437
Repayment of debt	(249,060)	(2,074)	(3,378)
Costs from issue of new shares	–	(1,291)	(1,807)
Repurchase of own shares	–	(16,335)	(16,335)
Loan issue costs	(2,848)	–	(161)
Net cash inflow/(outflow) from financing	88,675	(3,844)	15,756
Increase/(decrease) in cash	101,899	(26,155)	(81,324)
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase/(decrease) in cash in the period	101,899	(26,155)	(81,324)
Cash movement from (increase)/decrease in debt	(91,523)	(13,782)	(34,059)
Change in net debt resulting from cash flows	10,376	(39,937)	(115,383)
Debt acquired with subsidiaries	–	(40,761)	(41,982)
Cash acquired with subsidiaries	–	–	776
Conversion of Convertible Unsecured Loan Stock 2011 to Ordinary shares	–	40	40
Exchange rate movements	(601)	11,764	6,846
Derivative financial instruments movements	11,817	–	(11,817)
Net debt at start of period	(499,590)	(252,749)	(252,749)
Net debt before ZDP entitlement	(477,998)	(321,643)	(414,269)
ZDP Shares non-cash movements	(3,722)	(81,696)	(85,321)
<b>Net debt at end of period</b>	<b>(481,720)</b>	<b>(403,339)</b>	<b>(499,590)</b>

## Notes to the Interim Accounts

### 1. Basis of preparation

In the period to 31 December 2005 the Company presented a single performance statement recognising all gains and losses within the Statement of Total Return. With effect from 1 January 2006 the Company adopted the recommendations set out in the Statement of Recommended Practice; Financial Statements of Investment Trust Companies issued in December 2005 (SORP). The SORP provides guidance to companies in particular on new accounting standards dealing with the measurement, disclosure and presentation of financial instruments. The SORP recommends that companies should present separately, as primary statements with the same prominence as other primary statements, a statement of total recognised gains and losses and a reconciliation of movement in shareholders' funds. The total column of the income statement represents the Group's profit and loss account prepared in accordance with UK Accounting Standards. The supplementary revenue and capital columns are both prepared under guidance, published by the Association of Investment Companies. All items in the income statement and statement of total recognised gains and losses derive from continuing operations and no operations were acquired or discontinued in the period.

The fair value movements on derivative financial instruments designated as hedges which were previously taken through the Statement of Total Return are shown as movements on the Statement of Total Recognised Gains and Losses. In addition changes in the market value of investment and development properties and exchange gains and losses on retranslation of the net investment in overseas subsidiaries previously reported in the Statement of Total Return are shown as movements on the Statement of Total Recognised Gains and Losses.

#### **Derivative financial instruments**

In February 2006 the Group refinanced a substantial portion of the borrowings within the Castlemarket Group. A new €375 million securitised loan was drawn down, together with a €50 million junior loan.

In anticipation of the refinancing the Directors determine that the Group will fair value all of its derivative financial instruments through the Income Statement rather than treat them as hedges and record the fair value movements through equity. As a consequence, and in accordance with the requirements of FRS 26, the deficit on the hedge reserve at January 2006 of £7.8 million has been recycled to the Income Statement. In the period to 30 June 2006 all of the Company's derivative financial instruments are measured at fair value through the income statement.

## 2. Property valuers

£66.8 million of the development properties are at Directors' valuation being original cost having been recently transacted. The remainder of the Irish investment and development properties were revalued by DTZ Sherry Fitzgerald, professional valuers. The UK investment property was revalued by Allsop & Co., Chartered Surveyors. All properties were valued as at 30 June 2006.

## 3. Net asset values

The net asset values per share as shown by the Income Statement are based on the following:

	<b>30 June 2006</b>	30 June 2005	31 December 2005
Net assets attributable to			
Ordinary shares	<b>£238,900,000</b>	£129,951,000	£184,453,000
Number of Ordinary shares in issue	<b>253,044,006</b>	253,044,006	253,044,006
Net assets attributable to			
Zero Dividend Preference shares	<b>£89,043,000</b>	£81,696,000	£85,321,000
Number of Zero Dividend Preference shares in issue	<b>57,755,782</b>	57,755,782	57,755,782

## 4. Return per Ordinary share

	<b>30 June 2006 (Unaudited)</b>	30 June 2005 (Unaudited)	31 December 2005 (Audited)
<b>Basic</b>			
The return per Ordinary share is based on the following figures:			
Revenue return (£'000)	<b>4,537</b>	6,287	12,991
Capital return (£'000)	<b>(15,738)</b>	(12,822)	(37,498)
<b>Total return</b>	<b>(11,201)</b>	(6,535)	(24,507)
Weighted average number of shares in issue ('000)	<b>253,044</b>	214,363	233,862
Ordinary share:			
– revenue return	<b>1.8p</b>	2.9p	5.6p
– capital return	<b>(6.2)p</b>	(6.0)p	(16.0)p
<b>– total return</b>	<b>(4.4)p</b>	(3.1)p	(10.4)p

The 7.5% Convertible Unsecured Loan Stock 2011 are ordinarily convertible into 101,143,194 Ordinary shares on conversion. They are anti-dilutive.

## Notes to the Interim Accounts *(continued)*

### 5. Shares and loan stock in issue

At the period end the Company had the following in issue:

	<b>30 June 2006</b>	<i>31 December 2005</i>
Ordinary shares of 1p	<b>253,044,006</b>	253,044,006
Zero Dividend Preference shares	<b>57,755,782</b>	57,755,782
7.5% Convertible Unsecured Loan Stock 2011	<b>101,143,194</b>	101,143,194

### 6. Dividend

On 28 September 2006 the Company declared a dividend of 1p per Ordinary share payable on 3 November 2006 to shareholders registered at 6 October 2006. A final dividend for the year ended 31 December 2005 of 1.5p per share was paid on 21 June 2006 to shareholders registered at 12 May 2006.

By order of the Board

Aztec Financial Services Limited  
Secretary

28 September 2006

# Independent Review Report to Real Estate Opportunitites Limited

## Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the Group Income Statement, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes that have been reviewed. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' Responsibilities

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

## Review Work Performed

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

## Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

28 September 2006

**KPMG**  
Chartered Accountants  
Dublin

## Corporate Information

### Directors

Raymond Y F Horney, *Chairman*  
Richard J Barrett  
Keith A Jenkins  
J Philip Jenkinson  
Garth P D Milne  
David O Moon  
Martin W Richardson

### Secretary and Registered Office

Aztec Financial Services Limited  
32 Commercial Street  
St Helier  
Jersey JE4 0QH

**Registered Number:** 79679

### Manager

INVESCO International Limited  
40 Esplanade  
St Helier  
Jersey JE4 2PH

### Investment Adviser and UK Property Adviser

INVESCO Asset Management Limited  
30 Finsbury Square  
London EC2A 1AG

### Irish Property Adviser

Treasury Holdings  
The Warehouse  
35 Barrow Street  
Grand Canal Docks  
Dublin 4  
Ireland

### Registrar

Capita IRG (Offshore) Limited  
Victoria Chambers  
Liberation Square  
1/3 Esplanade  
St Helier  
Jersey JE4 0FF

### UK Stockbroker

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

### Irish Stockbroker

NCB Stockbrokers Limited  
3 George's Dock  
International Financial Services Centre  
Dublin 1  
Ireland

### Auditors

KPMG  
Chartered Accountants  
1 Stokes Place  
St Stephen's Green  
Dublin 2  
Ireland



**INVESCO Asset Management Limited**

30 Finsbury Square London EC2A 1AG  
Telephone: 020 7065 4000

INVESCO Asset Management Limited is a member of AMVESCAP Group  
and is authorised and regulated by the Financial Services Authority