

**REO SECURITIES LIMITED**

INTERIM RESULTS  
FOR THE SIX MONTHS  
ENDED 30 JUNE 2009



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REO Securities is a wholly owned subsidiary of Real Estate Opportunities plc. Shareholders attention is drawn to Real Estate Opportunities plc interim results.

# Chairman's statement



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

## Company Background

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

Admission of the 57,755,782 New ZDP Shares of REO Securities Limited to the Official List of the UK Listing Authority took place on 18 February 2008, with dealings therein on the London Stock Exchange commencing on the same day.

## Activities

The Company is a wholly owned subsidiary of REO, and forms part of the Real Estate Opportunities plc Group (the "Group"). REO is a property company investing mainly in the Irish and UK property markets but also overseas.

The Company was incorporated as part of a Scheme of Capital Restructuring of the REO Group so as to remove the requirement that REO be wound up in 2011. On the 18 January 2008 shareholders of REO passed

all resolutions proposed at the Class Meeting of the zero dividend preference shareholders relating to the Scheme of Capital Restructuring.

On 14 February 2008 the Court approved a scheme for REO to cancel the share premium account and to cancel the existing zero dividend preference shares and to issue in exchange zero dividend preference shares ("ZDPs") in the Company.

On the 18 February 2008, the entire issued zero dividend preference shares of REO were suspended from trading prior to cancellation. On the same day zero dividend preference shares in the Company issued to the former zero dividend preference shareholders of REO, commenced trading.

## Status

The Company was incorporated on 27 April 2007 and as a wholly owned subsidiary of REO, forms part of a closed ended collective investment fund, as defined in the Collective Investment Funds (Jersey) Law 1988, as amended, and the subordinate legislation made thereunder.

The Company has applied for international service entity status under the Goods and Services Tax (International Service Entities) (Jersey) Regulations 2008 in respect of the year ended 31 December 2008 and 31 December 2009. Goods and Service Tax was introduced with effect from 6 May 2008.

The Company has been granted exempt status under Article 123A of the Income Tax (Jersey) Law 1961 in respect of the year ended 31 December 2008. With effect from 1 January 2009 the Company moved to a 0% rate of income tax following the abolition of exempt company status.

The Company is registered in Jersey under number 97292.

## Capital Structure

The Company has a capital structure comprising Ordinary and Zero Dividend Preference Shares ("ZDP's"). The ordinary shares are unlisted and are beneficially held by Real Estate Opportunities plc ("REO"). Accordingly, REO Securities Limited is a wholly owned subsidiary of REO. The ZDP's are listed on the London Stock Exchange.

## Going Concern

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

# Chairman's statement

(continued)

## **Going Concern** (continued)

At 30 June 2009 REO had total borrowings of £1,621 million. At that date, REO had cash, cash equivalents and restricted cash of £61 million and a deficit on consolidated shareholders equity of £88 million. REO has an investment and development property portfolio valued by its Directors at £1,622 million.

REO's future operating performance will be affected by general economic, financial and business conditions, many of which are beyond REO's control. REO'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 REO's property portfolio and shareholders equity and as a consequence on REO's ability to obtain longer term debt or equity financing required to meet its longer term financing and liquidity requirements beyond 2010.

REO's Board, together with REO's Investment Adviser, have focused on cash conservation. A series of cost cutting measures have been implemented across REO and a full review of REO's detailed financial plan for the next 15 months has been carried out. A number of key assumptions have been made in preparing this plan, including: bank facilities that are due in 2009 and 2010 amounting to £556 million and £201 million respectively will be rolled over and renewed on broadly

similar terms; if there are further declines in values which may result in breaches of loan facility covenants, it is assumed that the existing facilities will remain in place and be renewed, as is consistent with REO's recent experience; and REO will realise £35 million to £40 million in cash following the completion of one of a number of corporate transactions that are currently being explored. Based on these assumptions, REO's Board believes that there is adequate cash and cash equivalents to meet its working capital requirements until November 2010.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure by REO to deliver on the forecast assumptions may cast significant doubt on the ability of the 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 REO's cashflow projections together with assessing the current status of negotiations with REO'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 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 unaudited interim financial statements do not include any adjustment that would result from the going concern basis of preparation being inappropriate.

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

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

The Directors of REO appointed the Investment Adviser to conduct the valuations using assumptions, and exercising certain judgements, based on market conditions as at 30 June 2009. Shareholder attention is drawn to the Investment Advisers Report in REO plc's interim results for further details.

## **Real Estate Opportunities plc**

Shareholders' attention is drawn to the publication of the preliminary results for Real Estate Opportunities plc issued on the 27 August 2009 for reference.

**Ray Horney**  
**Chairman**  
**26 August 2009**

# Principal risks and uncertainties and directors responsibility statement

The most significant risks to REO Securities Limited relates to its arrangements with REO.

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

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

## **Directors Responsibility Statement**

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

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

**By order of the Board**

**Ray Horney**  
**Chairman**  
**26 August 2009**

# Condensed statement of financial position

As at:

	Note	30 June 2009 Unaudited	31 December 2008 Audited
<i>In thousands of pounds sterling</i>			
<b>Assets</b>			
Trade and other receivables	2	115,315	110,495
<b>Total non-current assets</b>		<b>115,315</b>	<b>110,495</b>
<b>Total assets</b>		<b>115,315</b>	<b>110,495</b>
<b>Equity</b>			
Issued capital	3	-	-
Retained earnings	4	-	-
<b>Total shareholders' equity</b>		<b>-</b>	<b>-</b>
<b>Liabilities</b>			
Zero Dividend Preference Shares	5	115,315	110,495
<b>Total non-current liabilities</b>		<b>115,315</b>	<b>110,495</b>
<b>Total liabilities</b>		<b>115,315</b>	<b>110,495</b>
<b>Total shareholders' equity and liabilities</b>		<b>115,315</b>	<b>110,495</b>

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

# Condensed interim income statement

For the six months ended 30 June

	Note	2009 Unaudited	2008 Unaudited Restated
<i>In thousands of pounds sterling</i>			
Finance income	6	4,820	3,389
Financial expense	6	(4,820)	(3,389)
<b>Net financing expense</b>		-	-
<b>Loss before tax</b>		-	-
Income tax expense	7	-	-
<b>Loss for the year/ period</b>		-	-
<b>Earnings per Share</b>			
Basic loss per Ordinary Share	8	-	-

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

# Condensed interim statement of comprehensive income

For the six months ended 30 June

	2009 Unaudited	2008 Unaudited Restated
<i>In thousands of pounds sterling</i>		
<b>Loss for the period</b>	-	-
<b>Total recognised income and expense for the period</b>	-	-

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

# Condensed statement of changes in equity

For the six months ended 30 June

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

# Condensed interim statement of cashflows

For the six months ended 30 June

	2009	2008
	Unaudited	Unaudited Restated
<i>In thousands of pounds sterling</i>		
<b>Cash flows from operating activities</b>		
Loss for the year	-	-
Adjustments for:		
Net financial expense	-	-
Increase in non current liabilities	4,820	105,828
Increase in trade and other receivables	(4,820)	(105,828)
<b>Net cash from operating activities</b>	-	-
<b>Net movement in cash and cash equivalents</b>	-	-
Cash and cash equivalents at 1 January 2009	-	-
<b>Cash and cash equivalents at 30 June 2009</b>	-	-

# Notes to the interim financial statements

## 1a. Basis of preparation

The unaudited condensed interim financial statements of the Company are for the six months ended 30 June 2009. They are in pounds sterling, rounded to the nearest thousand.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Financial Statements as at and for the year ended 31 December 2008.

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

## 1b. Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2008.

The condensed interim financial statements were approved by the Board of Directors on 26 August 2009.

### Significant accounting policies

Except as described below, the accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited financial statements as at and for the year ended 31 December 2008.

The following new standard and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2009.

### Presentation of financial statements

The Company applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result the Company presents in the statement of changes in equity all owner changes in equity whereas all non owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in the condensed interim financial statements as of and for the six months period ended on 30 June 2009.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

## 1c. Going concern

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

At 30 June 2009 REO had total borrowings of £1.6 billion. At that date, REO also had cash, cash equivalents and restricted cash of £61 million and a deficit on consolidated shareholders equity of £88 million. REO has an investment and development property portfolio valued by its Directors at £1.6 billion at 30 June 2009.

REO's future operating performance will be affected by general economic, financial and business conditions, many of which are beyond REO's control. REO'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 REO's property portfolio and shareholders equity and as a consequence on REO's ability to obtain longer term debt or equity financing required to meet our longer term financing and liquidity requirements beyond 2010.

# Notes to the interim financial statements

(continued)

## 1c. Going concern (continued)

REO has prepared a financial plan for the period to 31 December 2010. A number of key assumptions have been made in preparing this plan, including: bank facilities that are due in 2009 and 2010 amounting to £556 million and £201 million respectively will be rolled over and renewed on broadly similar terms; if there are further declines in values which may result in breaches of loan facility covenants, it is assumed that the existing facilities will remain in place and be renewed, as is consistent with REO's recent experience; and REO will realise £35 million to £40 million in cash following the completion of one of a number of corporate transactions that are currently being explored. Based on these assumptions, REO's Board believes that there is adequate cash and cash equivalents to meet its working capital requirements until November 2010.

Included in REO's consolidated balance sheet at 30 June 2009 are loans due in 2009 of £226 million, with original maturity dates between 2010 and 2011. These are shown as repayable in 2009 as a result of a breach of covenant by REO at 30 June 2009. Discussions are ongoing with REO's bankers and REO's directors are not aware of any issues which would prevent the required waiver being granted.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure of REO to deliver on the forecast assumptions may cast significant doubt on the ability of the 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 REO's cashflow projections together with assessing the current status of negotiations with REO'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 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 unaudited interim financial statements do not include any adjustment that would result from the going concern basis of preparation being inappropriate.

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

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

These valuations have been carried out solely by the Directors of REO using assumptions, and exercising certain judgements, based on market conditions at 30 June 2009. Further details of the assumptions used in the valuations are set out in the Investment Advisers report contained in REO's interim results also published today, 27 August 2009, which details the valuation further. REO's portfolio will be valued by external valuers as at 31 December 2009.

## 2. Trade and other receivables – non current

*In thousands of pounds sterling*

	<b>30 June 2009</b>	<b>31 December 2008</b>
Amounts due by parent undertaking	115,315	110,495
	<hr/> 115,315	<hr/> 110,495

The amount due from parent undertaking is repayable in 2011.

### 3. Called –Up Share Capital

	30 June 2009 £	31 December 2008 £
<b>Authorised</b>		
1,000 ordinary shares of £1	1,000	1,000
60,000,000 Zero Dividend Preference (ZDP) Shares of £0.00001	600	600
	1,600	1,600
<b>Allotted, called up and paid in full</b>		
2 ordinary shares of £1	2	2
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	578
	580	580
<b>Presented as debt</b>		
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	578
<b>Presented as Equity</b>		
2 ordinary shares of £1	2	2
	580	580

On 18 February 2008 the Company was listed on the London Stock Exchange and 57,755,782 New 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 REO, the holding company of REO Securities Limited.

Rights attaching to the ZDP Shares and the Ordinary shares:

(a) As to dividends:

- the Ordinary shares carry the right to receive the profits of the Company (including accumulated revenue reserves) available for distribution and determined to be distributed by way of interim and/or final dividend.
- the 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 Ordinary Shares are entitled to the surplus assets of the company available for distribution.
- 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 ordinary shareholders have the right to vote at general meetings of the Company and each shareholder present shall have 1 vote in respect of each share held.
- the ZDP Shareholders shall not have the right to attend or vote at any general meeting of the Company unless the business of the meeting includes any resolution to vary, modify or abrogate any of the special rights attached to the 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.

### 4. Retained Earnings

*In thousands of pounds sterling*

	30 June 2009	31 December 2008
At 1 January 2008	-	-
Result for the year	-	-
Balance at the 31 December 2008	-	-

# Notes to the interim financial statements

(continued)

## 5. Non current Liabilities

In thousands of pounds sterling

	30 June 2009	31 December 2008
Zero Dividend Preference Shares	115,315	110,495
	<u>115,315</u>	<u>110,495</u>

The Zero Dividend Preference Shares are due to be repaid on the 31 May 2011 or earlier on winding up of the Company.

## 6. Financial Income/ (expense)

In thousands of pounds sterling

	Period ended 30 June 2009	Period ended 30 June 2008
Income on REO intercompany advance	4,820	3,389
Interest in respect of zero dividend preference shares	(4,820)	(3,389)
Net finance expense recognised in income statement	<u>-</u>	<u>-</u>

## 7. Taxation

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

With effect from 6 May 2008, a 3% Goods and Services Tax ("GST") was introduced under the Goods and Services Tax (Jersey) Law 2007. The Company may apply for an exemption under the Goods and Services Tax (International Service Entities) (Jersey) Regulations 2008 on payment of an annual fee of £100. The Company has been granted international service entity status for the year 2009.

## 8. Earnings per share

In thousands of pounds sterling, except shares

	Period ended 30 June 2009	Period ended 30 June 2008
<b>Basic Earnings per Share</b>		
Loss attributable to equity holders	-	-
	<u>-</u>	<u>-</u>
Weighted average number of Ordinary Shares	2	2
	<u>2</u>	<u>2</u>
<b>Basic loss per Ordinary Share (£'000)</b>	<u>-</u>	<u>-</u>

## 9. Group Membership

The Company is a wholly owned subsidiary of Real Estate Opportunities plc, a company incorporated in Jersey. The consolidated financial statements of Real Estate Opportunities may be obtained from Whiteley Chambers, Don Street, St Helier, Jersey JE49WG, Channel Islands.

## **10. Related party disclosures**

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

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

In order for REO Securities Limited to have sufficient assets to repay the ZDP Shares, REO and REO Securities Limited have entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of REO will effectively be made available to meet the repayment entitlement of the ZDP Shares on the Repayment Date, 31 May 2011.

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

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

## **11. Restatement**

The income statement for the period ended 30 June 2008 has been restated to reflect the company's income on the amount due from REO. The impact of this restatement is to reduce the loss for the period to 30 June 2008 by £3,389,000.

# Independent Review Report to REO Securities Limited

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the condensed income statement, condensed statement of comprehensive income, condensed statement of financial position, condensed statement of cashflows, condensed statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

## Directors' responsibilities

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

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

## Our responsibility

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

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations the Disclosure and Transparency Rules of the UK FSA.

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

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

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

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

As set out in that note there are a number of material uncertainties which may cast doubt on the ability of REO to continue as a going concern. These matters include the ability of REO to successfully negotiate the roll over and renewal of bank loans of £556 million which fall due in 2009 and £201 million which fall due in 2010, realise £35 - £40 million in cash from the completion of a corporate transaction and to secure the continuing support from REO's bankers in the event of future breaches of covenants on other loans in a climate of deteriorating property values.

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

While the ultimate outcome of these matters cannot be assessed with certainty at this time, the Directors are of the opinion that based on the current stage of negotiations with the REO bankers that it is appropriate to prepare the financial statements on the going concern basis.

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

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

Given the materiality of these amounts and the inherent subjectivity in such valuations, we draw your attention to note 1 to the financial statements, which highlights that these valuations have been carried out by the Directors of REO using assumptions, and exercising certain judgements, based on market conditions as at 30 June 2009.

**KPMG**

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26 August 2009

# Notes



# REO SECURITIES LIMITED

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