

Real  
Estate  
Opportunities

# Interim Report

Six months to 30 June 2004



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## 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, Dublin 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.

### **Investment Objectives**

The Company's stated investment objectives at launch were 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 an expected annualised dividend yield of 8.8 per cent. per annum (based on the issue price of 100 pence) and capital growth. The Company has currently suspended dividend payments but it is the intention of the Board to re-establish dividend payments as soon as practicable, although it is anticipated that the rate of dividend will be at a considerably lower level. The capital growth objectives remain unchanged. The portfolio is now principally invested in the Irish and UK property markets.

## Financial Information

	<b>At 30 June 2004 £'000</b>	<i>At 31 December 2003 Restated £'000</i>	<i>% Change</i>
Fixed assets	<b>430,804</b>	497,283	-13.4%
Net borrowings (including 7.5% Convertible Unsecured Loan Stock 2011)	<b>292,914</b>	345,434	-15.2%
Net assets	<b>154,597</b>	156,541	-1.2%
<b>Ordinary shares:</b>			
Net asset value	<b>40.4p</b>	43.0p	-6.0%
Mid-market price	<b>48.3p</b>	48.0p	+0.6%
Premium	<b>19.6%</b>	11.6%	
<b>Zero Dividend Preference shares:</b>			
Net asset value	<b>129.8p</b>	124.3p	+4.4%
Mid-market price	<b>98.3p</b>	84.8p	+15.9%
Discount	<b>24.3%</b>	31.8%	
<b>7.5% Convertible Unsecured Loan Stock 2011:</b>			
Mid-market price	<b>98.3p</b>	91.0p	+8.0%
Net debt to equity ratio	<b>189.5%</b>	220.7%	
Net debt to equity ratio after allowing for full conversion of 7.5% Convertible Unsecured Loan Stock 2011	<b>75.0%</b>	94.8%	
<b>Interim Period Ended</b>			
	<b>30 June 2004 £'000</b>	<i>30 June 2003 Restated £'000</i>	
Total income	<b>14,899</b>	15,154	
Net total return before taxation	<b>(858)</b>	24,312	

## Chairman's Statement

### Introduction

In the six month period ended 30 June 2004, the net assets of your Company have decreased by 1.2 per cent. from £156.5m (restated from previously reported figure of £167.0m) to £154.6m. This has resulted in the net asset value per Ordinary share falling 6 per cent. from 43p (as restated) to 40.4p. The price of the Company's Ordinary shares, 48.3p at the end of the period under review, has increased to 55p as at 17 September 2004.

At the period end the Company's assets were primarily Irish and UK properties. The Irish property portfolio was valued at €511.9m (31 December 2003 €506.3m) and the UK portfolio, following a number of disposals detailed below, at £75.9m (31 December 2003 £107.5m). I am pleased to report that the property market has again remained stable. The majority of investments within the Company's income portfolio have successfully been realised and at the period end the remaining income portfolio was valued at £5.8m (31 December 2003: £27.6m).

### Irish Economic Overview

The Irish economy is enjoying a strong rebound in activity following the downturn in late 2001, sustained through 2002 and 2003. Figures from the Central Statistics Office (CSO) indicate that the Irish economy grew at an annual rate of just over 6 per cent. in the first 3 months of 2004. This surge in economic performance reflects more favourable international trading conditions and renewed confidence among consumers, underwritten by a tightening of the labour market.

While consumer expenditure remained moderate in 2003, increasing by only 1.9 per cent. on the previous year, there is evidence of a strong pick up in consumer confidence in 2004. The combination of an increase in earnings growth, an improvement in labour market conditions and a reduction in the savings ratio has created a positive environment for rising consumer expenditure. This is reflected by an increase in retail sales: the annual growth rate in consumer sales was 2.8 per cent. in the first quarter of the year relative to 0.6 per cent. in the final quarter of 2003.

The latest CSO figures indicate that the rate of inflation as measured by the consumer price index (CPI) increased moderately during the first half of the year but remains around the Euro-area average of just under 2 per cent.

Despite the strength of the recovery in much of the global economy, the overall Euro-area recovery remains quite weak. The outlook is that the recovery in the Euro-zone generally will remain moderate in the medium term, constraining rises in interest rates.

### Irish Property Market

The recovery in the performance of the Irish property market witnessed in the second half of 2003 has carried through into the first half of 2004. The Society of Chartered Surveyors/

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Investment Property Databank (SCS/IPD) Index indicates a total return of 12.2 per cent. in the 12 months to the end of June 2004. This compares with a total return of 6.3 per cent. over the corresponding period to June 2003.

The Dublin office market remains stable with vacancy levels declining. Renewed confidence in the economy is generating increased enquiries from occupiers. This is highlighted by a recent report published by the OECD which confirms that the level of foreign direct investment into the Irish economy rose to an estimated \$25.5bn in 2003, up 5 per cent. on the previous year. This is in contrast to Europe as a whole, where inward investment fell by 23 per cent. during 2003. Examples of specific foreign direct investment projects, which have impacted on the Dublin office market in the first half of 2004, include the establishment by two important players in the technology sector, E-Bay and Google, of their European headquarters in Dublin.

Rental levels have remained relatively unchanged during the first half of 2004 with prime rents for third generation space in the city centre around €440 per sq. m. while those for second hand properties are in the region of €350 per sq. m.

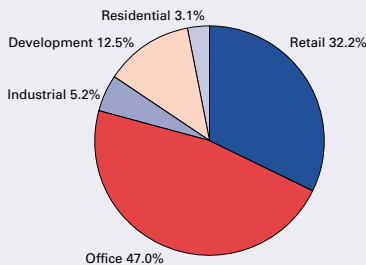
The retail market continues to be the most buoyant sector. The aggressive expansion policies of both domestic and international retailers coupled with a continued lack of prime accommodation has further underwritten the strength of this market. The SCS/IPD Index recorded a total capital growth in retail values in the 12 months to the end of June 2004 at 19.2 per cent. with average rental values growing over the same period by 8.7 per cent. Most of the new retail stock due to be completed and brought to the market during the next 12 - 24 months is almost fully let, thereby ensuring a continuing scarcity of quality retail opportunities and underpinning values for the foreseeable future.

The residential market has also maintained a healthy level of growth during the first half of the year. After a record performance in 2003 when almost 70,000 new units were developed, indications to date suggest that this level could be replicated if not exceeded in 2004. Despite the increase in supply however, the market remains strongly underpinned with demand generated by population growth, rising living standards, falling household sizes and a benign interest rate environment.

## Chairman's Statement *(continued)*

### Irish Property Portfolio

The sectoral breakdown of the Company's Irish property portfolio (including properties held by Havenview) is as follows:



The Irish property portfolio continues to perform well with the investment portfolio producing modest capital appreciation during the first half of the year. Rent reviews in respect of a number of properties in the portfolio continue to generate rental growth and contribute to performance.

A particular highlight during the period was the confirmation of full planning permission, through our 50 per cent. joint venture company Havenview, for our major town centre mixed-use scheme at Ballymun. Based on the consents now received, this has the potential to become one of Ireland's best shopping centre developments and is undoubtedly amongst the most exciting development projects in the Company's portfolio.

We remain busy on the other development properties in the portfolio with applications for planning permission lodged during the period for development schemes on the Balgaddy site in Clondalkin, the Allegro site in Sandyford and the Blakes site in Stillorgan (the last two being held within Havenview).

### UK Property Investment Market

In 2003, UK property delivered total returns of 11.3 per cent. according to the IPD Monthly Index and performance in the first half of 2004 appears to be a continuation on the same theme. In the first half of 2004, UK property generated a total return of 8.6 per cent. (IPD Monthly Index), comparing very favourably with returns on Equities (FTSE All Share Index) at 2.8 per cent. and Gilts (FTSE 5-15 year index) at 0.1 per cent.

The UK market recorded returns of 2.1 per cent. for June 2004 (IPD Monthly Index), the highest one-month return for over a decade. This strong performance is more significant when considered against the background of rising interest rates.

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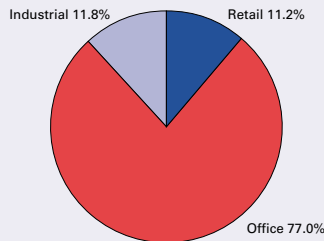
The drivers of this performance are starting to shift. While much of the total return generated by property last year was delivered through capital value growth (mostly as a result of very strong demand from investors) rather than rental value growth (indicating a revival in occupational markets), there are signs that there is now some rental value growth appearing in some of the office sub-markets.

The hierarchy of sector performance has remained unchanged for some time now, with the retail sector performing best, industrial second and offices third. All three sectors benefited from capital value growth through sustained investment demand (and a relative lack of product) over the period, though unlike previous quarters office returns were not being held back by significant rental decline. Retail and industrial continued to benefit from clear rental value growth.

### UK Property Portfolio

At 30 June 2004, your UK property portfolio comprised 22 properties, valued at £75.9m. The revised valuation reflects an increase in value (on a like for like basis) of 3.8 per cent. since December 2003.

The sectoral breakdown of the Company's UK property portfolio is as follows:



The reduced size of the portfolio (there were 43 properties in your UK portfolio in December 2003) results from disposals during the period under review totalling £38.4m, including the sale on 16 April of a portfolio of 19 properties, for a total consideration of £35.6m. The price achieved reflected a premium of nearly 13 per cent. over the value of the properties in December 2003. The properties identified for sale in this transaction were those where either asset management initiatives had been completed, or there was little short-term opportunity to add value. The premium price achieved reflected, in part, the strong investment demand for portfolios of such properties.

The retained portfolio comprises a mixture of retail, office and industrial property, located around the UK, and two individual office properties; one located in Guernsey and the

## Chairman's Statement *(continued)*

other in the Isle of Man. The portfolio is currently generating an income yield of 8.1 per cent., and has only 3.5 per cent. vacancy.

A number of the assets have short-term asset management initiatives, including upcoming rent reviews and lease renewals, while others have interesting prospects for refurbishment or redevelopment. The future ownership of these assets is reviewed on an ongoing basis, in the context of the expected future performance of the individual assets, and the portfolio's wider context within the Real Estate Opportunities group.

### Financing

As reported in the last annual report, the Company has during the period under review repaid the outstanding €15m Income Portfolio facility and at the same time cancelled the €188m interest rate swap for a cost of €15.3m. This was funded from sales of bond investments. In addition, the Company has subsequently repaid £25m of the UK property loan, closed out the £109m UK property swap for a profit of £26,000 and entered into an interest rate cap on the remaining UK property loan of £50m at 5.8 per cent. per annum until 25 July 2005.

### Adjustment to Accounts for 2002 and 2003

In 2001, the Company took out a floating rate loan for €188m and, at the same time, entered into an interest rate swap for the same amount, effectively fixing the interest payable on the loan. €173m of the loan was repaid in two tranches in September and December 2002. The balance, €15m, was repaid in January of this year and, at the same time, the interest rate swap was broken at a cost of €15.3m (as referred to in Financing, above); this repayment and breakage was announced at the time and is recorded as a post balance sheet event in the Annual Report and Accounts of the Company for 2003. Likewise the UK property loan was not fully drawdown at the year end, having a balance of £69m at 31 December 2002 and £75m at 31 December 2003. The swap on this loan was closed as shown in Financing, above.

In the audited accounts of the Company for 2002 and 2003, both interest rate swaps were treated as hedging instruments and accordingly nil value was ascribed to them in the balance sheet (the fair value being indicated in a note to the accounts for both years).

Notwithstanding the advice given at the time by the Company's auditors, KPMG Channel Islands Limited ("KPMG"), the Board has now been advised by KPMG that in so far as the loan to which the interest rate swap related had been repaid, the fair value of the swap should, in accordance with UK GAAP, have been provided for as a balance sheet item. On the basis of this new advice received from KPMG, a prior year adjustment has therefore now been made and this is reflected in the interim accounts which follow this statement.

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## **Case Against Aberdeen**

The Committee appointed to investigate the legal claims available to the Company for losses sustained in the income portfolio has made good progress under the chairmanship of Lord Browne-Wilkinson. Aberdeen and other advisers have been notified of the company's expected claims and have been invited to provide information in relation to them. Pending further steps, it would not be appropriate to announce further details of the nature and extent of the proposed claims.

## **Outlook**

The Board remains firm in its conviction that shareholders' returns will be best enhanced by continuing to progress your Company's development projects and by the continued good prospects for growth in the Company's existing investment assets. I am particularly encouraged that consensus growth forecasts for the Irish economy remain exceptionally strong relative to the Euro-zone as a whole. This, coupled with the development potential of the Company's principal property assets, justifies an optimistic outlook for the Company.

**R Y F Horney**

*Chairman*

20 September 2004

## Analysis of UK Property Portfolio

### Properties with a market value of more than £3,000,000

<i>Location of property</i>	<i>Sector</i>
33-49 Victoria Street, Bristol	Office
79-80 North Street, Chichester	Retail
Eagle Star House, Athol Street, Douglas, Isle of Man	Office
55-63 East Street and 1-3 Victoria Place, Epsom	Office
33-48 Sidwell Street, Exeter	Retail
Orbis House, New Street, St Peter Port, Guernsey	Office
Botley Grange Office Campus, Southampton	Office
Units 15 & 16 Chesford Grange and 6 Hardwick Grange, Warrington	Industrial

### Properties with a market value between £1,000,000 and £3,000,000

<i>Location of property</i>	<i>Sector</i>
Thameside House, High Street, Brentford	Office
157-159 Preston Road, Brighton	Office
Devonshire House, Elmfield Road, Bromley	Office
31-33 Newport Road, Cardiff	Office
Duracell House, Gatwick Road, Crawley	Industrial
Alhambra House, St Michael's Road, Croydon	Office
Hyde Park House, Crown Street, Ipswich	Office
Chadderton Industrial Estate, Manchester	Industrial
Langwood House, High Street, Rickmansworth	Office
Ryder House, 16 Bath Road, Slough	Office
Units 3-7, Denny End Industrial Estate, Pembroke Avenue, Waterbeach	Industrial
Crest House, 39 Thames Street, Weybridge	Office

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

<i>Location of property</i>	<i>Sector</i>
1-3 Tyburn Lane, Harrow	Office
54 Whiteladies Road, Bristol	Retail

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## Analysis of Irish Property Portfolio

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

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

<i>Location of property</i>	<i>Sector</i>
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 Clondalkin	Development

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

<i>Location of property</i>	<i>Sector</i>
Lands at Lehaunstown Lane, Cabinteely, Co Dublin	Development
Lands at Kinsealy, Co Dublin	Development
35 Henry Street, Dublin	Retail
Charlemont House, Charlemont Place, Dublin 2	Office
3 College Green, Dublin 2	Office/Development
Land at Glendruid, Cabinteely, Co Dublin	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

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#### **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

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#### **Properties with a market value less than £500,000**

<i>Location of property</i>	<i>Sector</i>
18 Fleet Street, Dublin	Retail

## Analysis of Irish Property Portfolio *(continued)*

### **Havenview\* Properties Only**

#### **Properties with a Market Value above £10,000,000**

<i>Location of property</i>	<i>Sector</i>
Central Park, Leopardstown, Dublin 18 (50 per cent. owned by Havenview)	Development/Office
43-49 Mespil Road, Dublin 4	Office
Ballymun Shopping Centre, Dublin 11	Retail

#### **Properties with a Market Value between £1,000,000 and £10,000,000**

<i>Location of property</i>	<i>Sector</i>
Allegro Site, Blackthorn Drive, Sandyford, Dublin 18 (50 per cent. owned by Havenview)	Development
Blakes Retaurant, Lower Kilmaeud Road, Stillorgan, Dublin	Office/Retail

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

## Income Portfolio

<i> Holding</i>	<i> Description</i>	<i> Investment Market Value £'000</i>	<i> % of Total Income Portfolio Assets</i>
1,852,830	BFS US Special Opportunities Units	1,075	18.5
2,500,000	Premier Pacific Income Fund	1,019	17.5
2,250,000	Exeter Financials Fund	776	13.3
921,810	Aberdeen Convertible Income	392	6.7
1,500,000	Technology & Income ZDP†	94	1.6
2,250,000	St David's Investment Trust Units	90	1.5
1,213,891	Royal London UK Equity & Income	58	1.0
7,000,000	European Monthly Income	39	0.7
259,500	Morley Absolute Growth	39	0.7
2,065,000	Britannic UK Income	23	0.4
2,000,000	Gartmore Absolute Growth & Income	16	0.3
3,188,029	Enhanced Zero	14	0.2
7,980,000	Investment Trust of Investment Trusts Preference Income	12	0.2
2,415,000	American Investment Trust	7	0.1
3,500,000	Framlington Global Financial & Income Fund	4	0.1
1,613,333	Investment Trust of Investment Trusts	3	–
600,000	Edinburgh Leveraged Income	1	–
<b>Total Investment Company Investments</b>		<b>3,662</b>	<b>62.8</b>
2,500,000	London International Exhibition Centre 7.71% 25/11/15 GBP	1,188	20.4
1,500,000	Energis 9.125% Senior Notes 15/3/10 GBP	120	2.1
1,000,000	Energis 9.5% 15/6/09 GBP	80	1.4
740,732	Netia Seria 'H' Polish Zloty	464	8.0
128,100	Avery Weightronics US\$	308	5.3
<b>Total Income Portfolio Investments</b>		<b>5,822</b>	<b>100.0</b>

† in liquidation post 30 June 2004

## Group Statement of Total Return (incorporating the Revenue Account)

	<i>Six months ended 30 June 2004</i> <i>(Unaudited)</i>		
	<i>Revenue</i> <i>£'000</i>	<i>Capital</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
Gains on investments	—	393	393
Gains on investment and development properties – Group	—	7,571	7,571
– Joint Venture	—	2,058	2,058
Exchange rate movements	491	(8,916)	(8,425)
Income	14,899	—	14,899
Management fee	(331)	(993)	(1,324)
Other expenses	(1,714)	—	(1,714)
<b>Net return before finance costs and taxation</b>	<b>13,345</b>	<b>113</b>	<b>13,458</b>
Share of operating loss in Joint Venture	(418)	(124)	(542)
Interest payable and similar charges			
– Group	(3,150)	(9,574)	(12,724)
– Joint Venture	(271)	(779)	(1,050)
	(3,421)	(10,353)	(13,774)
<b>Return on ordinary activities before tax</b>	<b>9,506</b>	<b>(10,364)</b>	<b>(858)</b>
Tax on ordinary activities	(1,091)	—	(1,091)
<b>Return on ordinary activities after tax for the financial period</b>	<b>8,415</b>	<b>(10,364)</b>	<b>(1,949)</b>
Net appropriations in respect of non-equity shares	—	(3,150)	(3,150)
Minority interest	—	4	4
<b>Transfer to/(from) reserves</b>	<b>8,415</b>	<b>(13,510)</b>	<b>(5,095)</b>
<b>Return per ordinary share – note 5</b>			
<b>Ordinary shares – basic</b>	<b>4.3p</b>	<b>(6.9)p</b>	<b>(2.6)p</b>
– diluted	3.1p	—	—
<b>Zero Dividend Preference shares</b>	<b>—</b>	<b>5.5p</b>	<b>5.5p</b>

The revenue column of this statement is the profit and loss account of the Group. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

## Group Statement of Total Return (incorporating the Revenue Account)

	Six months ended 30 June 2003			Year ended
	(Unaudited) Restated*			31 December
	Revenue	Capital	Total	(Audited) Restated*
	£'000	£'000	£'000	£'000
Gains on investments	—	6,058	6,058	8,579
Gains on investment and development properties – Group	—	12,424	12,424	15,196
– Joint Venture	—	177	177	(11)
Exchange rate movements	(899)	10,935	10,036	12,235
Gains on buy-back of 7.5% Convertible Unsecured Loan Stock 2011	—	3,886	3,886	3,886
Income	15,154	—	15,154	31,066
Management fee	(625)	(1,874)	(2,499)	(4,271)
Other expenses	(1,512)	—	(1,512)	(3,028)
<b>Net return before finance costs and taxation</b>	<b>12,118</b>	<b>31,606</b>	<b>43,724</b>	<b>63,652</b>
Share of operating profit/(loss) in Joint Venture	2,324	(17)	2,307	2,559
Interest payable and similar charges				
– Group	(3,194)	(17,021)	(20,215)	(32,563)
– Joint Venture	(736)	(768)	(1,504)	(2,271)
	(3,930)	(17,789)	(21,719)	(34,834)
<b>Return on ordinary activities before tax</b>	<b>10,512</b>	<b>13,800</b>	<b>24,312</b>	<b>31,377</b>
Tax on ordinary activities	(948)	—	(948)	(3,403)
<b>Return on ordinary activities after tax for the financial period</b>	<b>9,564</b>	<b>13,800</b>	<b>23,364</b>	<b>27,974</b>
Net appropriations in respect of non-equity shares	—	(2,584)	(2,584)	(5,634)
Minority interest	—	1	1	(18)
<b>Transfer to reserves</b>	<b>9,564</b>	<b>11,217</b>	<b>20,781</b>	<b>22,322</b>
<b>Return per ordinary share – note 5</b>				
<b>Ordinary shares – basic</b>	<b>4.5p</b>	<b>5.3p</b>	<b>9.8p</b>	<b>11.0p</b>
– diluted	4.5p	—	—	—
<b>Zero Dividend Preference shares</b>	<b>—</b>	<b>4.9p</b>	<b>4.9p</b>	<b>10.2p</b>

\*The prior year restatement is described in note 2.

## Summarised Group Balance Sheet

	<b>30 June 2004 (Unaudited)</b>	<b>30 June 2003 (Unaudited) Restated*</b>	<b>31 December 2003 (Audited) Restated*</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fixed assets</b>			
Investment and development properties	419,360	462,531	464,267
<b>Investments</b>			
Share of gross assets in Joint Venture	66,674	66,641	67,669
Share of gross liabilities in Joint Venture	(61,052)	(60,461)	(62,215)
Interest in Joint Venture	5,622	6,180	5,454
Listed investments	5,822	27,473	27,562
	<b>430,804</b>	<b>496,184</b>	<b>497,283</b>
<b>Current assets</b>			
Debtors due after one year	40,000	40,000	40,000
Debtors due within one year	2,521	2,822	7,285
Cash at bank	112,754	59,384	89,225
	<b>155,275</b>	<b>102,206</b>	<b>136,510</b>
<b>Creditors: amounts falling due within one year</b>	<b>(53,067)</b>	<b>(40,501)</b>	<b>(58,708)</b>
<b>Net current assets</b>	<b>102,208</b>	<b>61,705</b>	<b>77,802</b>
<b>Total assets less current liabilities</b>	<b>533,012</b>	<b>557,889</b>	<b>575,085</b>
<b>Creditors: amounts falling due after one year</b>			
7.5% Convertible Unsecured Loan Stock 2011	(101,183)	(101,200)	(101,200)
Bank loans	(275,123)	(289,135)	(304,759)
	<b>(376,306)</b>	<b>(390,335)</b>	<b>(405,959)</b>
<b>Provisions for liabilities and charges</b>	<b>(2,109)</b>	<b>(15,606)</b>	<b>(12,585)</b>
<b>Net assets</b>	<b>154,597</b>	<b>151,948</b>	<b>156,541</b>
<b>Capital and reserves</b>			
Called up share capital	2,548	2,548	2,548
Share premium account	311,730	311,713	311,713
Capital reserve — realised	(146,374)	(87,820)	(114,140)
Capital reserve — unrealised	(98,341)	(128,951)	(111,082)
Property revaluation reserve	16,787	8,839	10,824
Redemption reserve	18,401	12,201	15,251
Revenue reserve	49,918	33,475	41,503
Total shareholders' funds	154,669	152,005	156,617
Minority interests	(72)	(57)	(76)
<b>Capital employed</b>	<b>154,597</b>	<b>151,948</b>	<b>156,541</b>
<b>Net asset value per share – note 6</b>			
<b>Ordinary shares</b>	<b>40.4p</b>	<b>42.2p</b>	<b>43.0p</b>
<b>Zero Dividend Preference shares</b>	<b>129.8p</b>	<b>119.0p</b>	<b>124.3p</b>

\*The prior year restatement is described in note 2.

## Group Cash Flow Statement

	<b>30 June 2004 (Unaudited) £'000</b>	<b>30 June 2003 (Unaudited) £'000</b>	<b>31 December 2003 (Audited) £'000</b>
<b>Operating activities</b>			
Investment income received	2,167	1,873	3,981
Cash received from tenants	10,697	15,397	23,680
Overheads and other cash payments	(4,182)	(2,218)	(10,152)
<b>Net cash inflow from operating activities</b>	<b>8,682</b>	15,052	17,509
<b>Returns on investments and servicing of finance</b>	<b>(21,714)</b>	(7,591)	(24,111)
<b>Taxation</b>	<b>(2,234)</b>	(1,118)	(2,128)
<b>Capital expenditure and financial investment</b>	<b>55,895</b>	(188)	7,275
<b>Cash inflow before financing</b>	<b>40,629</b>	6,155	(1,455)
<b>Financing</b>			
New debt	311	150,824	221,550
Repayment of debt	(17,411)	(91,952)	(128,184)
Repurchase of Convertible Unsecured Loan Stock 2011	—	(19,312)	(19,312)
Loan issue costs	—	(5,331)	(2,435)
Costs from issue of new shares	—	(60)	—
Repurchase of own shares	—	(8,210)	(8,210)
Net cash (outflow)/inflow from financing	(17,100)	25,959	63,409
Increase in cash	23,529	32,114	61,954
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the period	23,529	32,114	61,954
Cash movement from decrease/(increase) in debt	17,100	(39,560)	(74,054)
Change in net debt resulting from cash flows	40,629	(7,446)	(12,100)
Non-cash cancellation of Convertible Unsecured Loan Stock 2011	—	3,886	3,886
Conversion of Convertible Unsecured Loan Stock 2011 to Ordinary shares	17	—	—
Exchange rate movements	11,874	(10,703)	(12,823)
Net debt at start of period	(345,434)	(324,397)	(324,397)
<b>Net debt at end of period</b>	<b>(292,914)</b>	(338,660)	(345,434)

## Notes to the Interim Accounts

1. The interim results have been prepared using accounting policies consistent with those used in the accounts for the year ended 31 December 2003, except as described below. The financial information for the year ended 31 December 2003 is not the Company's statutory accounts but has been abridged from accounts on which the Company's auditors gave an unqualified opinion and were prepared in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies. However, they have been restated, together with the six months ended 30 June 2003 accounts, to take account of advice from the Company's auditors in respect of the accounting treatment of financial instruments (see note 2 and the Chairman's Statement, page 8).

2. Prior year restatement – financial instruments

Previously, all interest rate swaps entered into by the company were held at cost and not marked to market. During the period, the company has reviewed this accounting treatment with respect to interest rate swaps that do not constitute an effective hedge, and has concluded that they should instead be carried at the lower of cost and net realisable value, recognising a liability where that value is negative. As a result, the previous periods' results have been restated and the effect is set out below:

	<i>Six months ended 30 June 2003 £'000</i>	<i>Year ended 31 December 2003 £'000</i>
<b>Effect on Group Statement of Total Return:</b>		
Increase in interest payable and similar charges – Group	3,439	84
Decrease in capital and total return for the period	(3,439)	(84)
<b>Effect on Group Balance Sheet:</b>		
Increase in provisions for liabilities and charges	13,809	10,453
Decrease in net assets	13,809	10,453
Decrease in opening shareholders' funds	10,370	10,370

In the statement of total return, the amounts have been charged entirely to the capital account. There is no impact on cash flows.

The Company's accounting treatment with respect to interest rate swaps that form an effective hedge remains unchanged.

3. The UK, Channel Islands and Isle of Man investment properties were revalued by Allsop & Co., Chartered Surveyors and the Irish investment and development properties were revalued by DTZ Sherry Fitzgerald, professional valuers, all as at 30 June 2004.

4. Management fees charged in the period were as follows:

	<b>30 June 2004 (Unaudited) £'000</b>	<i>30 June 2003 (Unaudited) £'000</i>	<i>31 December 2003 (Audited) £'000</i>
Base Fee*	<b>1,324</b>	2,499	3,921
Performance Fee	<b>nil</b>	nil	350
	<b>1,324</b>	2,499	4,271

\*Excludes base fee charged to Havenview.

The Base Fee is charged 75% to capital reserve – realised and 25% to the revenue account. The Performance Fee is charged 100% to capital reserve – realised.

None of the above fees was affected by the prior year restatement of financial instruments as disclosed in note 2 and the Chairman's Statement.

In addition to the fees specified above, development and project fees amounting to €1,538,000 have been capitalised in the cost of the applicable development property of the Company or joint venture company, Havenview Limited.

5. The basic revenue return per Ordinary share is based on the revenue return on ordinary activities after tax of £8,415,000 (2003 – £9,564,000) and on 197,035,421 (2003 – 210,659,858) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

The basic capital (loss)/gain per Ordinary share is based on the capital return on ordinary activities after tax and appropriations in respect of accrued premium payable on redemption of the Zero Dividend Preference shares of £13,510,000 (loss) (2003 restated – gain of £11,217,000) and on 197,035,421 (2003 – 210,659,858) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

The diluted revenue return per Ordinary share is based on the revenue return on ordinary activities after tax but before interest on the 7.5% Convertible Unsecured Loan Stock 2011 of £9,362,000 and on 298,218,112 Ordinary shares being the weighted average number of Ordinary shares on the basis of full conversion of the 7.5% Convertible Unsecured Loan Stock 2011.

The return per Zero Dividend Preference share is based on the gross appropriation for the accrued premium payable on redemption of the shares of £3,150,000 (2003 – £2,874,000) and on 57,755,782 (2003 – 59,145,561) Zero Dividend Preference shares, being the weighted average number of shares in issue during the period.

6. The net asset value per Ordinary share is based on the net assets attributable to the Ordinary shareholders of £79,641,000 (30 June 2003 restated – £83,192,000, 31 December 2003 restated – £84,735,000) and on 197,050,824 (30 June 2003 – 197,033,424, 31 December 2003 – 197,033,424) Ordinary shares in issue at the end of the period.

The net asset value per Zero Dividend Preference share is based on the net assets attributable to the Zero Dividend Preference shareholders of £74,956,000 (30 June 2003 – £68,756,000, 31 December 2003 – £71,806,000) and on 57,755,782 (30 June 2003 – 57,755,782, 31 December 2003 – 57,755,782) Zero Dividend Preference shares in issue at the end of the period.

Notes to the Interim Accounts (*continued*)

7. Group Reserves

	Share Premium account £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Property revaluation reserve £'000	Redemption reserve £'000	Revenue reserve £'000
Balance previously reported	311,713	(114,140)	(100,629)	10,824	15,251	41,503
Prior year restatement	—	—	(10,453)	—	—	—
Restated as at 1 January 2004	311,713	(114,140)	(111,082)	10,824	15,251	41,503
Conversion of Loan Stock	17	—	—	—	—	—
Net accrued redemption premium on Zero Dividend Preference shares	—	(3,150)	—	—	3,150	—
Surplus on revaluation of investment and development properties	—	—	—	4,099	—	—
Surplus on revaluation of investment and development properties of the Joint Venture	—	—	—	2,058	—	—
Net gain on realisation of investment and development properties — Group	—	3,472	—	—	—	—
Net loss on realisation of investments	—	(1,895)	—	—	—	—
Unrealised gains on investments	—	—	2,288	—	—	—
Exchange differences	—	(8,738)	—	(194)	—	—
Expenses taken to capital account	—	(11,470)	—	—	—	—
Transfer on realisation	—	(10,453)	10,453	—	—	—
Retained net revenue for the period	—	—	—	—	—	8,415
<b>Balance as at 30 June 2004</b>	<b>311,730</b>	<b>(146,374)</b>	<b>(98,341)</b>	<b>16,787</b>	<b>18,401</b>	<b>49,918</b>

8. Summary reconciliation of shareholders' funds

	<b>30 June 2004 (Unaudited) £'000</b>	<i>30 June 2003 (Unaudited) Restated £'000</i>	<i>31 December 2003 (Audited) Restated £'000</i>
Opening shareholders' funds	<b>156,541</b>	136,793	136,793
Purchase of own shares	<b>—</b>	(8,210)	(8,210)
Total recognised (losses)/gains	<b>(1,944)</b>	23,365	27,958
Capital employed	<b>154,597</b>	151,948	156,541
Equity shareholders' funds	<b>79,641</b>	83,192	84,735
Non-equity shareholders' funds	<b>74,956</b>	68,756	71,806
	<b>154,597</b>	151,948	156,541

Equity shareholders' funds represents the interests of the Ordinary shareholders. Non-equity shareholders' funds represents the interests of the Zero Dividend Preference shareholders.

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

	<b>30 June 2004</b>	<i>31 December 2003</i>
Ordinary shares of 1p	<b>197,050,824</b>	197,033,424
Zero Dividend Preference shares	<b>57,755,782</b>	57,755,782
7.5% Convertible Unsecured Loan Stock 2011	<b>101,182,691</b>	101,200,091

10. On 23 July 2004, the UK property Loan's swap of £109m was broken at a gain of £26,000 and a further £20m repaid on the UK property loan. In addition, an interest rate cap of 5.8% on the remaining UK property loan of £50m was put in place until 25 July 2005.

By order of the Board

Aztec Financial Services Limited  
Secretaries

20 September 2004

## 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  
John B Ronan  
Patrick A Teahon

### Secretary and Registered Office

Aztec Financial Services Limited  
Forum House  
Grenville Street  
St Helier  
Jersey JE2 4UF

**Registered Number:** 79679

### Manager

INVESCO International Limited  
40 Esplanade  
St Helier  
Jersey JE4 2PH

### Investment Adviser

INVESCO Asset Management Limited  
30 Finsbury Square  
London EC2A 1AG

### UK Property Adviser

INVESCO Real Estate Limited  
10 Mount Row  
London W1K 3SD

### Irish Property Adviser

Treasury Holdings Limited  
The Warehouse  
35 Barrow Street  
Dublin 4  
Ireland

### Registrar

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

### 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 Channel Islands Limited  
5 St Andrews' Place  
Charing Cross  
St Helier  
Jersey JE4 8WQ

### Solicitors and Advocates

Mourant du Feu & Jeune  
22 Grenville Street  
St Helier  
Jersey JE4 8PX

Herbert Smith  
Exchange House  
Primrose Street  
London EC2A 2HS

A&L Goodbody  
International Financial Services Centre  
North Wall Quay  
Dublin 1  
Ireland

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# Independent Review Report to Real Estate Opportunities Limited

## Introduction

We have been instructed by the Group to review the financial information for the six months ended 30 June 2004 set out on pages 14 to 21 and 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.

This report is made solely to the Group in accordance with the terms of our engagement letter to assist the Group in meeting the requirements of the Listing Rules of the Financial Services Authority, the Irish Stock Exchange and The Channel Islands Stock Exchange. Our review has been undertaken so that we might state to the Group 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 Group for our review work, for this report, or for the conclusions we have reached.

## 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, the Irish Stock Exchange and The Channel Islands Stock Exchange 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 they are to be changed in the next annual accounts in which case 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 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 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 2004.

**KPMG Channel Islands Limited**

20 September 2004

Chartered Accountants  
Jersey





**INVESCO Asset Management Limited**

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