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**REO SECURITIES LIMITED**  
**ANNUAL REPORT**  
**FOR THE 14 MONTHS ENDED 28 February 2010**  
*REGISTRATION NUMBER 97292*

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## **Directors and other information**

### **Directors**

Ray Horney  
Richard Barrett  
Martin Richardson  
Keith Jenkins  
Philip Jenkinson  
Garth Milne

### **Administrator, secretary and registered office**

Ogier Fund Administration (Jersey) Limited  
Whiteley Chambers  
Don Street  
St Helier  
Jersey JE4 9WG

### **UK broker**

Matrix Corporate Capital LLP  
One Vine Street  
London W1J OAH

### **Investment adviser**

Treasury Holdings  
Connaught House  
1 Burlington Road  
Dublin 4  
Ireland

### **Irish broker**

Goodbody Stockbrokers  
Ballsbridge Park  
Ballsbridge  
Dublin 4  
Ireland

### **Registrar**

Capita Registrars (Jersey) Limited  
12 Castle Street  
St. Helier  
Jersey JE4 5UW

### **Auditor**

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

## Chairman's statement

REO Securities is a wholly owned subsidiary of Real Estate Opportunities plc. Shareholders attention is drawn to Real Estate Opportunities plc preliminary results which are also published today (23 June 2010).

Real Estate Opportunities plc ("REO") has commenced preliminary discussions with certain key holders of loan instruments supporting the business including holders of the Zero Dividend Preference Shares ("ZDPs") with a view to agreeing a consensual restructuring of the Group's Balance Sheet prior to their repayment date on 31 May 2011. The Board has appointed a restructuring adviser, Talbot Hughes McKillop, to assist in these negotiations and the Company expects to update shareholders in due course as these discussions advance.

### 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 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.

### 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 28 February 2010, the Group had total borrowings of £1.721 billion. At that date, the Group also had cash and cash equivalents of £21.1 million, restricted cash of £17.7 million and an investment in CREO of £27.7 million which was realised in cash subsequent to the year end. The Group has an investment and development property portfolio valued at £1.1 billion and had a deficit on its shareholders' funds of £722 million.

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

At 28 February 2010, the Group had aggregate bank loans of £923 million classified as current liabilities. In addition, the Group had aggregate obligations of £371 million due to the holders of its Convertible Unsecured Loan Notes (CULs), its Zero Dividend Preference shares (ZDPs) and the 6.324% Series A and B unsecured loan notes. All of these instruments mature in May 2011 and based on the Group's current financial position, the Group does not have the ability to repay those instruments on their maturity in May 2011.

Each of the CULs and ZDPs mature in May 2011. The liability at 28 February 2010 in respect of the CULs and the ZDPs is £101 and £122 million respectively. In the case of the CULs, interest is paid every six months in the amount of £3.8 million and the next interest payment is due in August 2010.

The Series A and Series B unsecured loan notes in the aggregate amount of £147.8 million mature in May 2011. Interest at the rate of 6.324% per annum is payable half yearly and the next interest payment due date is 31 August 2010 in the amount of £5.0 million.

The Irish Government established the National Asset Management Agency (NAMA) as a key part of the solution to the current banking difficulties in Ireland. NAMA was established on a statutory basis under the aegis of the National Treasury Management Agency (NTMA).

NAMA is an asset management company established to acquire loans from participating institutions. It will manage these assets (hold, dispose, develop or enhance them) with the aim of achieving the best possible return for the Irish tax payer on the acquired loans and on the underlying assets over a seven/ten year time frame.

NAMA is a work out vehicle, not a liquidation vehicle, and can take a longer term view on borrowers and assets if it makes commercial sense to do so. Subsequent to the period end, NAMA acquired Group loans from participating institutions with an aggregate value of £815 million at 28 February 2010. As required by NAMA, the Group has submitted a detailed business plan which is currently being evaluated by NAMA with a view to seeking its approval to that plan. This evaluation process is currently underway and the Directors believe that the plan will be approved following which NAMA will monitor the Group's subsequent performance to ensure that we adhere to the targets contained in the business plan. Whilst initial communications between NAMA and the Company support the Directors' belief that NAMA will work alongside the Company's other banks to provide support to the operations of the Group, no formal approval of the Group's business plan has been received at this time.

The Battersea Powerstation is a major development project in central London. The development costs are currently funded 75% by a consortium of lenders, with the balance financed by the Group. The lenders are currently providing interest roll up on the existing debt. The Battersea facilities expire in March 2011 and in preparing the Group's business plan, the Directors have assumed that these facilities will be rolled over and renewed on broadly similar terms or alternatively will be re-financed on broadly similar terms. This has been approved by the banks' credit committees but is now subject to the completion of legal documentation.

The key assumptions made in preparing the business plan for the Group for the period to 30 June 2011 include:

- The acceptance by NAMA of the Group's business plan.
- The renewal by NAMA of bank facilities in the amount of £815 million on broadly similar terms.
- The agreement of NAMA to defer interest payments.
- The provision by NAMA of working capital facilities.
- The agreement of the holders of the CULS and Series A and Series B loan notes to a standstill on the payment of interest in the period to June 2011.
- Agreement with each of the holders of the CULS, ZDPs and Series A and B notes whereby the capital amounts due on maturity in May 2011 will not represent a cash outflow for REO.
- Certain of the Group's fee arrangements with Treasury will be restructured to cap the fees paid in the period to June 2011.
- Planning permission for the proposed development of Battersea Power Station will be granted in 2010.
- It is anticipated the Group's interest in Battersea will be restructured and that an equity partner will be introduced on the Battersea development providing all project financing from January 2011.

Based on the Group's business plan and the key assumptions noted above, the directors believe that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of the financial statements.

Following the anticipated Battersea restructuring, the Group will continue to have a deficit on its shareholders' equity and, as a consequence, it is anticipated that the Group will require ongoing financial support from NAMA and its non NAMA lenders in the period beyond June 2011.

The Directors of the Company have concluded that the above factors represent material uncertainties. Were the assumptions and objectives not to be achieved, it could cast significant doubt on the ability of the Group to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, having discussed the basis of preparation and the assumptions underlying the Group's cash flow projections, together with the current status of negotiations with NAMA and the Group's other lenders, and assuming the roll over and renewal of expiring facilities and required further waivers are put in place within the required time scales, the Directors of the Company have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on that basis that the Directors consider it appropriate to prepare the financial statements on a going concern basis. These financial statements do not include any adjustment that would result from the going concern basis of preparation being inappropriate.

Ray Horney  
Chairman

## Directors' report

The directors present their report on the affairs of the Company, together with the audited financial statements for the period ended 28 February 2010.

### Principal activities and business review

The Company is a wholly owned subsidiary of Real Estate Opportunities plc ("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.

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 period ended 28 February 2010.

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.

### Results

The financial results for the period ended 28 February 2010 are shown in the statement of comprehensive income page 21.

### Change of Accounting Year End

In November 2009, the board took the decision to change the accounting year end from 31 December to 28 February. The board was of the opinion that due the economic climate and the delay in the transfer of a substantial portion of the Company's loans to NAMA, thereby preventing any discussions on rollovers of loan facilities, preparation of financial statements as at 31 December would not be appropriate. The board requested and received consent from the Jersey Financial Services Commission in respect of the change.

### Directors

There are six directors of the Company. On 26 June 2009 Mr. Leech resigned from the board to pursue other business opportunities.

In accordance with the Articles of Association, Mr. Horney and Mr. Richardson will offer themselves for re-election.

No director has a service contract with the Company.

Mr. Barrett is a director and 50% shareholder of Treasury Holdings (“Treasury”). Treasury has an agreement to provide investment advisory services in respect of the Global Property Portfolio and Irish Property Portfolio and to provide property management services to the Group.

The directors who held office at the period end and their beneficial interests in the ZDPs at 28 February 2010 are shown below:

	At 28 February 2010 Zero Dividend Preference Shares	At 31 December 2008 Zero Dividend Preference Shares
R Y F Horney	-	-
R J Barrett	-	-
K A Jenkins	-	-
J P Jenkinson	-	-
G P D Milne	5,000	5,000
M W Richardson	-	-

#### Share buy-backs

The Company’s authority to make market purchases of up to 57,775,782 of its issued ZDPs was renewed on 9 June 2009. The Company will be seeking to renew this authority at this year’s AGM, notice of which is set out on pages 32 and 33. This authority will only be exercised on terms that are in the interests of shareholders.

#### Financial Statements

The directors’ responsibilities regarding the financial statements and safeguarding of assets are set out on pages 16 and 17.

#### Committees of the Board

The Board does not consider it appropriate for a company of this size and nature to appoint an audit committee, remuneration committee, management engagement committee or nominations committee. All such matters that would normally be dealt with by these committees are considered by the board of REO. The board of REO will make recommendations from time to time as appropriate to the Board of the Company.

#### Terms of appointment

The parent, REO, considers the investment management and advisory agreements annually in respect of the Group. The Board of REO has confirmed that they are satisfied with the performance and current terms of appointment of Treasury Holdings.

#### 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.

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#### Creditor Payment Policy

The Company's policy is to pay Stock Exchange trade creditors on dates of settlement and all other creditors are normally paid within 30 days or in accordance with contracted terms.

By order of the Board  
Ogier Fund Administration (Jersey) Limited  
Secretary and Administrator

Whiteley Chambers  
Don Street  
St Helier  
Jersey  
JE4 9WG

22 June 2010

# Corporate governance

## Introduction

### *Director's Statement of Compliance with the 2008 FRC Combined Code on Corporate Governance ("the Code")*

The Board is accountable to Shareholders for the governance of the Company's affairs. This Statement describes how the principles of the Code have been applied in the affairs of the Company. The Directors are committed to maintaining the highest standards of corporate governance.

The Directors believe that, during the period under review, they have complied with the provisions of the Code, insofar as they are relevant to the Company's business, save in respect of those matters explained below in the relevant sections.

## Directors and the board

### **The board**

The Board comprises of six Directors, all of whom are non-executive. Mr. Horney is Chairman of the Company and Mr. Milne is the senior independent Director. Five of the directors (and therefore a majority of the Board) are independent of the Investment Adviser to the Real Estate Opportunities plc Group (the "Group").

### **Board responsibilities**

The Company is a subsidiary of the Real Estate Opportunities plc ("REO"), Group. Overall responsibility for promoting the success of the Group rests with the board of the sole ordinary shareholder of the Company. The Board of REO carries out this role by directing and supervising its affairs within a framework of effective controls, which enables risk to be assessed and managed and making recommendations it feels appropriate to the Board of the Company. A formal schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board is not a requirement of this company as all such matters are dealt with by the Board of REO and recommendations made to the Board of the Company as appropriate.

The Investment Adviser and the Administrator ensure that the Board of REO have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made and recommendations be made to the Board of the Company as appropriate. The Board meets at least four times a year and additional meetings are arranged as and when necessary. Between these formal meetings there is regular contact with the Investment Adviser and the Administrator to the Group.

It is the responsibility of the Board to carry out a review of the Company's corporate governance procedures as applicable for a company of this nature. During the year the Board carried out a review of the Company's corporate governance procedures in line with corporate governance procedures adopted by the Board of REO. The main outcome of this review comprised the updated share dealing policy for persons discharging managerial responsibility.

### **Meetings**

During the period the Board met 7 times. Details of Board meeting attendance, committee membership and committee meeting attendance are provided in the table below. It should be noted that apart from 4 main

board meetings which are held in Jersey each year, a number of smaller meetings are held to deal with individual transactions and these generally are attended by the Jersey resident directors only.

	Quarterly Board Meeting	Telephone Board Meeting / Ad hoc Board Meeting
<b>Number of meetings in 2009/10</b>	<b>4</b>	<b>3</b>
<b>Mr. Ray Horney</b>	<b>4</b>	<b>2</b>
<b>Mr. Richard Barrett</b>	<b>4</b>	<b>1</b>
<b>Mr. Keith Jenkins</b>	<b>4</b>	<b>3</b>
<b>Mr. Philip Jenkinson</b>	<b>4</b>	<b>2</b>
<b>Mr. Garth Milne</b>	<b>4</b>	<b>2</b>
<b>Mr. Martin Richardson</b>	<b>4</b>	<b>3</b>

It is deemed not appropriate for a Company of this nature to have an Audit Committee, Management Engagement Committee or Remuneration Committee.

### **Delegation**

The Board of REO have appointed Treasury Holdings as the accounting services provider to the Group.

### **Board balance and director independence**

The Chairman of the Company is Mr. Horney, a non-executive, who is independent of the Investment Adviser. Mr. Milne is the senior independent director. Since all the Directors are non-executive and many day-to-day management responsibilities are sub-contracted, the Company does not have a Chief Executive Officer.

The Directors also sit as directors on the board of REO. Many of the management, financial and regulatory issues relating to the Group as a whole are dealt with by the Board of REO and therefore the Board of the Company does not consider there to be a conflict of interest in sitting on both boards.

The Board is of the opinion that the Company has been in compliance with the Combined Code provisions set out in Section A3 of the Combined Code.

### **Directors' Remuneration**

In accordance with the Memorandum and Articles of Association, annual director's fees must not exceed £50,000 per annum. To date the Directors have not received any remuneration for their appointment to the Board and do not intend to claim remuneration for the forthcoming year. They do not reserve the right to claim expenses resulting from carrying out their duties as a director in accordance with the Memorandum and Articles of Association.

The Board do not consider it necessary that a Remuneration Committee be appointed by the Company.

### **Appointment and re-election of Directors**

The Directors do not consider it necessary to appoint a Nominations Committee and Directors are selected and appointed by the Board as a whole. The Board is responsible for reviewing the size and structure of the Board and the skills of Directors and for the consideration and approval of any changes.

The Articles of Association provide that the Directors must submit themselves for re-election at the first opportunity after their appointment and retire by rotation every three years. In accordance with Article 85 of the Company's Articles of Association, Mr. Horney and Mr. Richardson submit themselves for re-election at the Annual General Meeting. The Board confirms that the performance of Mr. Horney and Mr. Richardson is effective and demonstrates commitment to the role of non-executive Director. The Board recommends to shareholders the approval of resolutions two and three relating to the Directors seeking re-election. On being appointed to the Board the Directors are fully briefed as to their responsibilities and are continually updated throughout their term of office on industry and regulatory developments. A Director's normal tenure of office will be for three terms of three years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders.

### **Performance evaluation**

The Board of REO recognises the importance of the Code particularly in terms of evaluating the performance of the Board as a whole. A performance evaluation of the REO Board was carried out during the year and, on the basis of the results, they did not consider it appropriate to make any recommendations to the Board of the Company.

### **Relations with Shareholders**

Zero Dividend Preference ("ZDP") shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with ZDP shareholders is through the interim and annual reports of REO, which aim to provide ZDP shareholders with a full understanding of the Group's activities and results.

Whilst ZDP shareholders are not permitted to vote at the AGM, they are welcome to attend the AGM at which they will have opportunity to address questions to the Chairman of the Board. At other times the Company responds to letters from ZDP shareholders on a range of issues.

Details of votes on resolutions at general meetings of the Company are disclosed on REO's website, the address of which is [www.realestateopportunities.co.uk](http://www.realestateopportunities.co.uk).

#### *Audit Committee*

It is deemed not appropriate for a company of this nature to appoint an Audit Committee. Any specific issues are dealt with by the Audit Committee and Board of REO and recommendations made to the Board of the Company as appropriate.

The Board has recommended the reappointment of the current auditors, KPMG Dublin, to shareholders on the basis of a recommendation by the Board of REO. The Board considered KPMG Dublin to be the most appropriate firm to undertake the engagement. There are no contractual obligations restricting the Board's choice of auditor and the performance of the auditors is monitored on an ongoing basis by the Board of REO and recommendations made to the Board of the Company as appropriate.

Non-audit services are provided to the Group as a whole and accordingly no such services have been provided specifically for this Company. The REO Board sets a policy for the provision of non-audit services to the Group and considers the ability of the auditor to maintain independence when providing any non-audit services.

#### *Management Engagement Committee*

It is deemed not appropriate for a company of this nature to appoint a Management Engagement Committee. Any specific issues are dealt with by the Management Engagement Committee and Board of REO and recommendations made to the Board of the Company as appropriate.

#### Internal Financial and Non-Financial Controls

The Board of REO accepts responsibility for the Group's system of internal financial and non-financial controls ("internal controls"). The effectiveness of the Group's operations has been reviewed by the Board of REO, and the control systems codified to enable the ongoing management of risks and facilitate a regular review. The Board of REO considers that these procedures enable the Group to comply with the Turnbull Guidance and sections 7.1 and 7.2 of the FSA Disclosure and Transparency Rules.

REO has entered into various written agreements which specifically define the roles and responsibilities of the Investment Adviser and other third party service providers to the Group.

The Board of REO meets regularly and reviews financial reports and performance against approved forecasts and relevant stock market criteria. Reports are also produced annually on the internal controls and procedures in place for the operation of investment management and accounting activities.

The control systems as designed by the Board of REO are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives of the Group.

## Statement of directors' responsibility

The directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies (Jersey) Law 1991, as amended.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the company. The Companies (Jersey) Law 1991 (as amended) provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU as applied in accordance with the Companies (Jersey) Law 1991 (as amended); and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the London Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations), the directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the group and the company and a responsibility statement relating to these and other matters, included below.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 (as amended). They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The financial statements are published on [www.realestateopportunities.co.uk](http://www.realestateopportunities.co.uk), which is a website maintained by the Company. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that the legislation in Jersey governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

### **Responsibility Statement, in accordance with the Transparency Regulations**

Each of the directors, whose names and functions are listed confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the company at 28 February 2010 and its result for the year then ended;

- the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Keith Jenkins  
*Director*

Martin Richardson  
*Director*

22 June 2010

## **Independent auditors' report to the members of REO Securities Limited**

We have audited the financial statements of REO Securities Limited for the 14 month period to 28 February 2010 which comprises the statement of financial position, the statement of comprehensive income, statement of cash flows, statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 (as amended). Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, are set out in the statement of director's responsibilities on pages 16 and 17.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and are properly prepared in accordance with the Companies (Jersey) Law 1991 (as amended).

We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for the audit.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the London Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

At the request of the Board we review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2008 FRC Combined Code specified for our review by the Listing Rules of the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement and director's report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practises Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 28 February 2010 and of its result for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991, (as amended).

### **Emphasis of Matter – Going Concern**

In forming our opinion on these financial statements, which are not qualified, we have considered the adequacy of the disclosures made in note 2a to the financial statements concerning the Company's ability to continue as a going concern. The company and its parent have entered into an arrangement whereby the net assets of REO will be made available to meet the repayment entitlement of the ZDP shares on the repayment date, 31 May 2011.

As set out in that note, there are a number of material uncertainties which, were the assumptions and objectives not be achieved, cast significant doubt on the ability of the Group to continue as a going concern. These matters include the approval by NAMA of the Group's business plan, the renewal of existing borrowing facilities, the deferral of interest and restructuring of capital payments on financial instruments, the receipt of planning permission on the Group's Battersea property and the restructuring of the Group's investment in Battersea. While the ultimate outcome of these matters cannot be assessed with certainty at this time, the Directors are of the opinion that, based on the current stage of discussions with the various involved parties, it is appropriate to prepare the financial statements on the going concern basis.

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

**Ruaidhri Gibbons**  
**Senior Statutory Auditor**  
**For and on behalf of KPMG**  
*Chartered Accountants*  
*Registered Auditor*  
Dublin, Ireland

22 June 2010

## Statement of financial position

### As at 28 February

<i>In thousands of pounds sterling</i>	Note	28 February 2010	31 December 2008
<b>Assets</b>			
Trade and other receivables	4	122,119	110,495
<b>Total non current assets</b>		<b>122,119</b>	<b>110,495</b>
<b>Total assets</b>		<b>122,119</b>	<b>110,495</b>
<b>Equity</b>			
Issued capital	5	-	-
Retained earnings	6	-	-
<b>Total shareholders' equity</b>		<b>-</b>	<b>-</b>
<b>Liabilities</b>			
Zero Dividend Preference Shares	7	122,119	110,495
<b>Total non-current liabilities</b>		<b>122,119</b>	<b>110,495</b>
<b>Total liabilities</b>		<b>122,119</b>	<b>110,495</b>
<b>Total shareholders' equity and liabilities</b>		<b>122,119</b>	<b>110,495</b>

The notes on pages 24 to 31 are an integral part of these financial statements.

On behalf of the Board

Keith Jenkins  
*Director*

Martin Richardson  
*Director*

22 June 2010

## Statement of comprehensive income for the 14 month period ended 28 February

	Note	14 month period ended 28 February 2010	Year ended 31 December 2008
<i>In thousands of pounds sterling</i>			
Finance income	8	11,624	8,058
Financial expense	8	(11,624)	(8,058)
<b>Net financing expense</b>		-	-
<b>Loss before tax</b>		-	-
Income tax expense	9	-	-
<b>Loss for the period / year</b>		-	-
<b>Earnings per Share</b>			
Basic loss per Ordinary Share	10	-	-

The notes on pages 24 to 31 are an integral part of these financial statements.

On behalf of the Board

Keith Jenkins  
*Director*

Martin Richardson  
*Director*

22 June 2010

## Statement of changes in equity for the period ended 28 February 2010

*In thousands of pounds sterling*

	Share capital	Retained earnings	Total
Balance at 1 January 2009	-	-	-
Total comprehensive income	-	-	-
<b>Balance at 28 February 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>
Balance at 1 January 2008	-	-	-
Total comprehensive income	-	-	-
<b>Balance at 31 December 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>

The notes on pages 24 to 31 are an integral part of these financial statements.

## Statement of Cash Flows for the period ended 28 February 2010

*In thousands of pounds sterling*

	<b>14 month period to 28 February 2010</b>	<b>Year to 31 December 2008</b>
<b>Cash flows from operating activities</b>		
Loss for the year	-	-
<i>Adjustments for:</i>		
Net financial expense	-	-
Increase in ZDP entitlement	11,624	110,495
Increase in trade and other receivables	(11,624)	(110,495)
<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 28 February 2010</b>	-	-

The notes on pages 24 to 31 are an integral part of these financial statements.

# Notes to the annual financial statements

## 1. Reporting Entity

REO Securities Limited (“the Company”) is a company incorporated in Jersey. The annual financial statements of the Company for the period ended 28 February 2010 (previously 31 December each year) were approved by the Board of Directors on 23 June 2010.

## 2. Basis of Preparation

### (a) 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 28 February 2010, the Group had total borrowings of £1.721 billion. At that date, the Group also had cash and cash equivalents of £21.1 million, restricted cash of £17.7 million and an investment in CREO of £27.7 million which was realised in cash subsequent to the year end. The Group has an investment and development property portfolio valued at £1.1 billion and had a deficit on its shareholders’ funds of £722 million.

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

At 28 February 2010, the Group had aggregate bank loans of £923 million classified as current liabilities. In addition, the Group had aggregate obligations of £371 million due to the holders of its Convertible Unsecured Loan Notes (CULs), its Zero Dividend Preference shares (ZDPs) and the 6.324% Series A and B unsecured loan notes. All of these instruments mature in May 2011 and based on the Group’s current financial position, the Group does not have the ability to repay those instruments on their maturity in May 2011.

Each of the CULs and ZDPs mature in May 2011. The liability at 28 February 2010 in respect of the CULs and the ZDPs is £101 and £122 million respectively. In the case of the CULs, interest is paid every six months in the amount of £3.8 million and the next interest payment is due in August 2010.

The Series A and Series B unsecured loan notes in the aggregate amount of £147.8 million mature in May 2011. Interest at the rate of 6.324% per annum is payable half yearly and the next interest payment due date is 31 August 2010 in the amount of £5.0 million.

The Irish Government established the National Asset Management Agency (NAMA) as a key part of the solution to the current banking difficulties in Ireland. NAMA was established on a statutory basis under the aegis of the National Treasury Management Agency (NTMA). NAMA is an asset management company established to acquire loans from participating institutions. It will manage these assets (hold, dispose, develop or enhance them) with the aim of achieving the best possible return for the Irish tax payer on the acquired loans and on the underlying assets over a seven/ten year time frame.

NAMA is a work out vehicle, not a liquidation vehicle, and can take a longer term view on borrowers and assets if it makes commercial sense to do so. Subsequent to the period end, NAMA acquired Group loans

from participating institutions with an aggregate value of £815 million at 28 February 2010. As required by NAMA, the Group has submitted a detailed business plan which is currently being evaluated by NAMA with a view to seeking its approval to that plan. This evaluation process is currently underway and the Directors believe that the plan will be approved following which NAMA will monitor the Group's subsequent performance to ensure that we adhere to the targets contained in the business plan. Whilst initial communications between NAMA and the Company support the Directors' belief that NAMA will work alongside the Company's other banks to provide support to the operations of the Group, no formal approval of the Group's business plan has been received at this time.

The Battersea Powerstation is a major development project in central London. The development costs are currently funded 75% by a consortium of lenders, with the balance financed by the Group. The lenders are currently providing interest roll up on the existing debt. The Battersea facilities expire in March 2011 and in preparing the Group's business plan, the Directors have assumed that these facilities will be rolled over and renewed on broadly similar terms or alternatively will be re-financed on broadly similar terms. This has been approved by the banks' credit committees but is now subject to the completion of legal documentation.

The key assumptions made in preparing the business plan for the Group for the period to 30 June 2011 include:

- The acceptance by NAMA of the Group's business plan.
- The renewal by NAMA of bank facilities in the amount of £815 million on broadly similar terms.
- The agreement of NAMA to defer interest payments.
- The provision by NAMA of working capital facilities.
- The agreement of the holders of the CULS and Series A and Series B loan notes to a standstill on the payment of interest in the period to June 2011.
- Agreement with each of the holders of the CULS, ZDPs and Series A and B notes whereby the capital amounts due on maturity in May 2011 will not represent a cash outflow for REO.
- Certain of the Group's fee arrangements with Treasury will be restructured to cap the fees paid in the period to June 2011.
- Planning permission for the proposed development of Battersea Power Station will be granted in 2010.
- It is anticipated the Group's interest in Battersea will be restructured and that an equity partner will be introduced on the Battersea development providing all project financing from January 2011.

Based on the Group's business plan and the key assumptions noted above, the directors believe that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of the financial statements.

Following the anticipated Battersea restructuring, the Group will continue to have a deficit on its shareholders' equity and, as a consequence, it is anticipated that the Group will require ongoing financial support from NAMA and its non NAMA lenders in the period beyond June 2011.

The Directors of the Company have concluded that the above factors represent material uncertainties. Were the assumptions and objectives not to be achieved, it could cast significant doubt on the ability of the Group to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, having discussed the basis of preparation and the assumptions underlying the Group's cash flow projections, together with the current status of negotiations with NAMA and the Group's other lenders, and assuming the roll over and renewal of expiring facilities and required further waivers are put in place within the required time scales, the Directors of the Company have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on that basis that the Directors consider it appropriate to prepare the financial statements on a going concern basis. These financial statements do not include any adjustment that would result from the going concern basis of preparation being inappropriate.

**(b) Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

**(c) Basis of measurement**

The financial statements are prepared on the historical cost basis.

**(d) Functional currency**

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

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

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future years.

### **3. Significant Accounting Policies**

**(a) Trade and other receivables**

Trade and other receivables are measured initially at fair value and are subsequently stated at amortised cost less impairment losses.

**(b) Share capital**

**(i) Ordinary share capital**

Ordinary shares are classified as equity

**(ii) Preference share capital**

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary (as more fully discussed in note (c) below).

**(c) Finance expense**

All borrowing costs are recognised in the income statement using the effective interest rate method.

**(d) Earnings per share**

The Company presents basic earnings per share (EPS) for its ordinary shares. EPS is calculated by dividing the entitlement attributable to shareholders by the weighted average of the number of shares outstanding during the period.

**(e) Classification of financial instruments**

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

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

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

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

**(f) New standards and interpretations not yet adopted**

The Directors have considered all IFRSs and interpretations that have been issued, but which are not yet effective and confirm that they do not believe that they will have a significant impact on how the results of operations and financial position of the Group are prepared and presented.

**4. Trade and other receivables – non current**

*In thousands of pounds sterling*

	<b>28 February 2010</b>	<b>31 December 2008</b>
Amounts due by parent undertaking	122,119	110,495
	<u>122,119</u>	<u>110,495</u>

The amount due from parent undertaking is repayable in 2011.

**5. Called –Up Share Capital**

	<b>28 February 2010</b>	<b>31 December 2008</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
1,000 ordinary shares of £1	1,000	1,000
60,000,000 Zero Dividend Preference (ZDP) Shares of £0.00001	600	600
	<u>1,600</u>	<u>1,600</u>
<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
	<u>580</u>	<u>580</u>
<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 Real Estate Opportunities Limited, 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.

## 6. Retained earnings

*In thousands of pounds sterling*

	28 February 2010	31 December 2008
At 1 January 2009	-	-
Result for the year	-	-
Balance at the 28 February 2010	-	-

## 7. Non current liabilities

*In thousands of pounds sterling*

	<b>28 February 2010</b>	<b>31 December 2008</b>
Zero Dividend Preference Shares	112,119	110,495
	<u>112,119</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.

## 8. Financial income/ (expense)

*In thousands of pounds sterling*

	<b>Period ended 28 February 2010</b>	<b>Year ended 31 December 2008</b>
Income on REO intercompany advance	11,624	8,058
Interest in respect of zero dividend preference shares	(11,624)	(8,058)
Net finance expense recognised in income statement	<u>-</u>	<u>-</u>

## 9. Taxation

The Company is entitled to exempt company status in Jersey under the provisions of article 123(A) of the Income Tax (Jersey) Law 1961 on payment of an annual fee of £600 per company. The Company has obtained exempt company status for the period ended 31 December 2008 and accordingly, income and capital gains of the Company, other than Jersey source income (excluding bank deposit interest), was exempt from taxation in Jersey for the financial period to 31 December 2008.

With effect from 3 June 2008, the income tax rate for new companies in Jersey was reduced from 20% to 0% and exempt company status for all new companies was abolished. The existing exempt company status of the Company remained in place until 31 December 2008 at which time they moved to a 0% rate of income tax. As a result, income and capital gains of the Company was subject to taxation in Jersey at a rate of 0% for the financial period to 28 February 2010.

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 international service entity status under the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008 on payment of an annual fee of £100 per company and be treated as being outside the scope of GST. The Company has been granted international service entity status for the year ended 28 February 2010.

## 10. Earnings per share

*In thousands of pounds sterling, except shares*

<b>Period ended 28 February 2010</b>	<b>Year ended 31 December 2008</b>
--	--

**Basic Earnings per Share**

Loss attributable to equity holders	-	-
	-	-
Weighted average number of ordinary shares	2	2
<b>Basic loss per Ordinary Share (£'000)</b>	-	-

**11. Financial instruments**

The Company's activities are exposed to a variety of financial and market risks which include:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

**Capital Management**

The Company has a fixed life and will be wound up on the 31 May 2011. The Company's objective is to settle the entitlement of the ZDP's on the winding up date. Real Estate Opportunities plc ("REO") has commenced preliminary discussions with certain key holders of loan instruments supporting the business including holders of the Zero Dividend Preference Shares ("ZDPs") with a view to agreeing a consensual restructuring of the Group's Balance Sheet prior to their repayment date.

**(a) Credit Risk**

Credit risk is the risk of financial loss to the Company, if a counterparty to a financial instrument, fails to meet its contractual obligations and arises wholly from the Company's exposure to the amount due from its parent Company, REO. The maximum exposure to credit risk as 28 February 2010 was £122,119,000 (2008: £110,495,000).

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective is to settle the entitlement of the ZDP's on the winding up date on or before the 31 May 2011.

**(c) Fair value**

The fair values together with the carrying amounts shown on the balance sheet are as follows:

<b>Primary financial instrument held or issued to finance the Company's operation</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<i>In thousands of pounds sterling</i>	<b>2010</b>	<b>2010</b>	<b>2008</b>	<b>2008</b>
Zero Dividend Preference Shares	(122,119)	(11,551)	(110,495)	(21,947)
Trade and other receivables	122,119	122,119	110,495	110,495
	<b>-</b>	<b>110,568</b>	<b>-</b>	<b>88,548</b>

The fair value of the Zero Dividend preference shares is based on quoted market prices at the balance sheet date.

Trade and other receivables have fair values that approximate their carrying value amounts because of their short term nature.

**12. Group membership**

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

**13. 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 Real Estate Opportunities plc and to issue the New ZDP shares in REO Securities Limited on a one for one basis to the existing shareholders of Real Estate Opportunities plc.

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 Real Estate Opportunities plc 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, Real Estate Opportunities plc and REO Securities Limited have entered into an arrangement pursuant to an Undertaking Agreement whereby the net assets of Real Estate Opportunities plc 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, Real Estate Opportunities plc 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.