

REO SECURITIES LIMITED

INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS TO 30 JUNE 2008

Highlights

On 14 February 2008 the Royal Court of Jersey granted approval of a Scheme of Arrangement (described in a circular to the shareholders of Real Estate Opportunities Limited ('REO') dated 18 December 2008). The Scheme involved the Zero Dividend Preference Shares ("ZDP Shares"), part of the share capital of REO, being cancelled and, in exchange, New ZDP Shares being issued to ZDP Shareholders on a one for one basis. The New ZDP Shares were issued by a newly incorporated subsidiary of REO, REO Securities Limited. Implementation of the Scheme allowed the New ZDP Shares to be repaid by way of the 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. These interim accounts constitute the first set of accounts of REO Securities Limited.

Shareholders' attention is drawn to the publication of the interim results for Real Estate Opportunities Limited also published today (29 August 2008).

REO

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INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2008

Investment Objective

The objective of the Company is to repay the ZDP Shares their final entitlement of 235.51p on the Repayment Date.

Capital Structure

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

Incorporation

The Company was incorporated on the 27 April 2007.

Activities

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 Limited and to issue New ZDP shares in REO Securities Limited on a one for one basis to the existing ZDP shareholders of Real Estate Opportunities Limited. This transaction completed in February 2008. The ZDP Shares are designed to provide a pre-determined level of capital return on the 31 May 2011, the date on which the Company is due to be wound up under the Articles.

Ray Horney

Chairman

28 August 2008

Principal Risks and Uncertainties for the remaining six months of the financial year

The most significant risks to REO Securities Limited related to its arrangements with Real Estate Opportunities Limited.

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

Pursuant to the Undertaking Agreement, Real Estate Opportunities Limited 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.

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”; and
- (b) the interim management report includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

By order of the Board

Ray Horney

Chairman

REO SECURITIES LIMITED

Condensed Balance Sheet As at 30 June 2008

	Notes	30 June 2008 £'000	31 December 2007 £'000
CURRENT ASSETS			
Other debtors	2	102,437	-
		<hr/>	<hr/>
		102,437	-
Creditors: Amounts falling due after one year			
Zero Dividend Preference Share		105,826	-
		<hr/>	<hr/>
NET (LIABILITIES) / ASSETS		<hr/> (3,389) <hr/>	<hr/> - <hr/>
CAPITAL AND RESERVES			
Called up share capital	3	-	-
Revenue deficit	4	(3,389)	-
		<hr/>	<hr/>
EQUITY SHAREHOLDERS Deficit		<hr/> (3,389) <hr/>	<hr/> - <hr/>

The accompanying notes are an integral part of these financial statements.

REO SECURITIES LIMITED

Condensed Income Statement For the period ended 30 June 2008

	2008	From 27 April 2007 to 30 June 2007
	£'000	£'000
Interest payable and similar charges		
-Zero Dividend Preference Shares	(3,389)	-
	<hr/>	<hr/>
(Loss) for the period	(3,389)	-

From the date of incorporation, 27th April 2007 to the 14th February 2008 the Company did not trade and hence received no income and incurred no expenditure. Consequently, during that period the Company made neither a profit nor a loss. Additionally, the Company had no other gains or losses or any cash flows during that period.

REO SECURITIES LIMITED

Condensed Statement of Recognised Income and Expense For the period ended 30 June 2008

	30 June 2008 £'000	30 June 2007 £'000
(Loss) for the period	(3,389)	-
Total recognised income and expense for the period	(3,389)	-

Reconciliation of movements in Shareholders' Funds	30 June 2008 £'000	30 June 2007 £'000
Total Income and expense for the period	(3,389)	-
Opening Equity Shareholders' Deficit	-	-
Closing Equity Shareholders' Deficit	(3,389)	-

REO SECURITIES LIMITED

Notes to the Condensed Consolidated interim financial statements

1 Accounting Policies/Basis of Preparation

The Interim Report comprises the accounts for the six months ended 30 June 2008. The Interim Report has been prepared in accordance with International Financial Reporting Standards for Interim Financial Statements. These are the Company's first IFRS interim financial statements and IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

These Condensed Financial Statements have not been audited or reviewed by the Company's auditors.

There are no differences between the financial position and the financial performance reported under IFRS to that which would have been reported under UK GAAP.

Share capital

Ordinary share capital

Ordinary shares are classified as equity.

Preference share capital

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

2 Debtors: amounts falling due within one year

	30 June 2008 £'000	31 December 2007 £'000
Amounts due by parent undertaking	<u>102,437</u>	<u>-</u>

All amounts fall due within one year. The amount due from parent undertaking is repayable on demand and is non interest bearing.

REO SECURITIES LIMITED

Notes to the Condensed Consolidated interim financial statements

3 Called –Up Share Capital

	30 June 2008 £	31 December 2007 £
Authorised		
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>
Allotted, called up and paid in full		
2 ordinary shares of £1	2	2
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	-
	<u>580</u>	<u>2</u>
Presented as debt		
57,755,782 Zero Dividend Preference (ZDP) Shares of £0.00001	578	
Presented as Equity		
2 ordinary shares of £1	2	2
	<u>580</u>	<u>2</u>

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.

The New ZDP Shares carry no right to receive dividends out of revenue or any other profits of REO Securities Limited. The ordinary shares carry the right to receive the profits of REO Securities Limited (including accumulated revenue reserves) available for distribution.

On winding up of REO Securities Limited on 31 May 2011, the holders of the New ZDP Shares are entitled to an amount equal to 100p per New 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 final entitlement of 235.51p on 31 May 2011. This payment is not guaranteed by REO.

The holders of the New ZDP Shares shall not have the right to attend or vote at any general meeting of REO Securities Limited unless the business of the meeting includes any resolution to vary, modify or abrogate any of the special rights attached to the New ZDP Shares. Where holders of New ZDP Shares are entitled to vote, every such holder present shall have one vote in respect of every New ZDP Share held by him. The holders of the ordinary shares shall have the right to attend and vote at general meetings of REO Securities Limited.

4 Revenue Deficit

Given the nature of the Company's only liability the only expenditure the Company expects to incur is the non-cash accretion of the ZDP shareholders entitlement. The Company expects that under the terms of the undertaking given by REO that the Shareholder deficit will be eliminated in full upon wind of the Company in 2011.

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Notes to the Condensed Consolidated interim financial statements

5 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 Limited 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 Limited.

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 Limited 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 Limited and REO Securities Limited have entered into an arrangement pursuant to an Undertaking Agreement whereby, conditional upon the scheme becoming effective, the net assets of Real Estate Opportunities Limited 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 Limited 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.

6 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 which is currently £600 per company. The Company has obtained exempt company status for the year ended 31 December 2008 and accordingly, income and capital gains of the Company, other than Jersey source income (excluding bank deposit interest), are exempt from taxation in Jersey for the financial year 2008. With effect from 3 June 2008, the income tax rate for 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 will remain in place until 31 December 2008 at which time they will move to a 0% rate of income tax.

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

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Notes to the Condensed Consolidated interim financial statements

7 Explanation of transition to IFRS

As stated in note 1, these are the Company's first interim financial statements for part of the period covered by the first annual financial statements prepared in accordance with IFRS's.

In preparing its opening IFRS balance sheet, comparative information for the period ended 31 December 2007, the Company was not required to adjust amounts reported previously in accordance with previous GAAP.

An explanation of how transition from previous GAAP to IFRS's has affected the Company's financial position and performance is set out below.

7 (i) Reconciliation of Assets

	Previous GAAP	Effect of transition to IFRS 31 December 2007	IFRS's
	£	£	£
Current Assets	2	-	2
Net Assets	<u>2</u>	<u>-</u>	<u>2</u>

7 (ii) Reconciliation of Equity

	Previous GAAP	Effect of transition to IFRS 31 December 2007	IFRS's
	£	£	£
Share Capital	2	-	2
Total Equity and Liabilities	<u>2</u>	<u>-</u>	<u>2</u>

