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If you have sold or otherwise transferred all your Ordinary Shares or ZDP Shares, please send this document and the accompanying documents to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold or transferred only part of your holding of Ordinary Shares or ZDP Shares, you should retain this document and the accompanying documents and consult the bank, stockbroker or agent through whom the sale was effected.

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Landsbanki, which is authorised and regulated in the UK by The Financial Services Authority, is acting exclusively for REO and REO Securities in connection with the Proposals and for no one else and will not be responsible to anyone other than REO and REO Securities for providing the protections afforded to its clients, for the content of this document, or for providing advice in relation to the Proposals.

REAL ESTATE OPPORTUNITIES LIMITED

(Incorporated and registered in Jersey under the Companies (Jersey) Law 1991 with registered number 79679)

Recommended proposals

**to adopt new articles of association, to cancel share premium account and
to cancel the existing issued zero dividend preference shares and
to issue in exchange zero dividend preference shares in a new subsidiary**

REO SECURITIES LIMITED

(Incorporated and registered in Jersey under the Companies (Jersey) Law 1991 with registered number 97292)

Your attention is drawn to the letter from the Chairman of REO in Part 1 of this document, which contains the unanimous recommendation of your Board that you vote in favour of the Proposals at the Court Meeting, the ZDP Class Meeting, the Ordinary Class Meeting and the Extraordinary General Meeting. A letter from Landsbanki explaining the Scheme is set out in Part 2 of this document.

This document should be read in conjunction with the accompanying Prospectus relating to REO Securities. A copy of the Prospectus, prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of the Financial Services and Markets Act 2000, has been filed with the FSA in accordance with the Prospectus Rules.

No New ZDP Shares have been marketed to, nor are any New ZDP Shares available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the New ZDP Shares to the Official List of the UK Listing Authority. This document does not constitute an offer or an invitation to any person to subscribe for or to purchase any securities in REO Securities.

Application has been made to the UK Listing Authority for the New ZDP Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that dealings in ZDP Shares will continue until the close of business on 14 February 2008 and that Admission will become effective and that dealings in New ZDP Shares will commence on the London Stock Exchange at 8.00 a.m. on 15 February 2008.

Notices of the Court Meeting, the ZDP Class Meeting, the Ordinary Class Meeting and the Extraordinary General Meeting of REO to be held on 18 January 2008, commencing respectively at 11.15 a.m., 11.25 a.m., 11.35 a.m. and 11.45 a.m. (or as soon thereafter as the preceding Meeting concludes or is adjourned), are set out at the end of this document.

Whether or not you intend to be present at the Meetings, please complete and return the forms of proxy accompanying this document to Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during normal business hours as soon as possible and in any event so as to arrive by not later than 48 hours before the time appointed for the relevant meeting (although the form of proxy for the Court Meeting may be handed to the chairman of the meeting at the start of the meeting).

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RISK FACTORS

This discussion of certain risk factors relating to the Group, the Ordinary Shares and the New ZDP Shares should be read in conjunction with the full text of this document.

You should note the following principal risk factors relating to an investment in the Group:

General Risks

An investment in the New ZDP Shares is suitable only for financially sophisticated investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss (including total loss) which may result from the investment. Prospective investors should, therefore, consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 before investing.

Changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect property investments and, accordingly, the ability of REO to meet its obligations to REO Securities.

Entitlements of the New ZDP Shares

The market value of the New ZDP Shares can fluctuate and may not always reflect their underlying net asset value. New ZDP Shareholders may not get back their full capital entitlement on the winding up of REO Securities.

Although the New ZDP Shares are entitled to a pre-determined capital repayment on the ZDP Repayment Date, this is not guaranteed.

The obligations of REO to discharge its obligations pursuant to the Undertaking Agreement, as described in paragraph 8 of Part 3, will be subordinated to the claims of REO's other creditors on a winding-up. If at the ZDP Repayment Date (or any earlier redemption or repurchase of the New ZDP Shares or winding up of REO Securities) REO has insufficient assets, then its obligations to make payment under the Undertaking Agreement may be satisfied only in part or not at all. Accordingly, REO Securities may have insufficient assets to satisfy the then current or final capital entitlement of the New ZDP Shares.

Should REO Securities be wound-up prior to the ZDP Repayment Date, holders of the New ZDP Shares would be entitled to receive only their accrued entitlement to the date of the winding-up. This amount, which would be calculated in accordance with the terms of the REO Securities Articles, would be less than the final capital entitlement of the New ZDP Shares and would be subject to REO having sufficient net assets.

Shareholders should be aware that the New ZDP Shares rank for capital behind any creditors of the Group.

There can be no guarantees that any appreciation in the values of the Group's investments will occur or that the investment objectives of the Company and/or other members of the Group will be met.

The market value of the New ZDP Shares will be affected by changes in general interest rates, with upward movements in interest rates likely to lead to reductions in the market value. The market value of the New ZDP Shares also takes into account, amongst other things, supply and demand for the New ZDP Shares, market conditions and general investor sentiment.

An investment in the New ZDP Shares may be relatively illiquid. There may be a limited number of ZDP Shareholders and this fact may contribute to infrequent trading and volatile share price movements.

Borrowings

The articles of association of each company in the Group allow the directors of each company to exercise borrowing powers.

Any borrowings of the Group will rank ahead of the entitlement of the New ZDP Shares and will be repaid first out of the assets of the relevant member of the Group on any winding-up of such member.

The use of any borrowings by the Group may increase the volatility of the net assets of the Group. Similarly, the use of borrowings by other companies in which the Group invests will increase the volatility of the Group's investment in such companies and thereby further increase the volatility of the net assets of the Group.

A breach of any terms entered into with a bank may entitle such bank to require repayment, which may require the Group to realise some or all of its investments at values that the Company regards as less than favourable.

Risk factors affecting the Group

General

The market value of and income derived from the Company's and REO Securities' shares will vary to reflect supply and demand in the market which will, at least in part, be influenced by the net asset value of REO. The market value of the Ordinary Shares and the New ZDP Shares may not reflect their underlying net asset value or capital entitlement. Investments in REO will be subject to the general and specific risks connected with investment in real estate and high yielding securities. There can be no guarantee that REO's investment objectives will be achieved.

The income and capital return for Ordinary Shareholders are expressed and will be reported in Sterling. As a large proportion of REO's assets, liabilities and income are denominated in Euros, returns to the Ordinary Shareholders will be influenced by the exchange rate movement between the Euro and Sterling.

The use of gearing is likely to increase volatility in REO's net asset value in that a relatively small movement in the value of the Company's investments will result in a greater relative movement (upwards or downwards) in net asset value per Ordinary Share.

Battersea Power Station

In December 2006 REO completed the purchase of the site and building of Battersea Power Station in London.

(a) *Site risk*

The site is a high profile site in London and the UK real estate market. The Power Station building ceased operations in 1982. Since then, there have been several attempts to agree the future use of, and to develop, the site. These proposals have reached various stages of development, but none has been successfully implemented, such that the site has attracted publicity as being a problematic site to develop. Any future attempts to develop the site could therefore, be ultimately frustrated by the nature of the site and the history of previous planning applications whilst also involving considerable expenditure. Given the high profile nature of the site and public interest in the future use and development of the site, REO may be subject to an increased level of public scrutiny and this in turn may increase the expectations on REO to implement and deliver a successful development of the site. In addition, Battersea Power Station is the only substantial acquisition and development by REO of a site located in the UK.

(b) *Location risk*

REO aims to create a new designation location within the London property market. At present the site is not an established location for retail, leisure, hospitality or office use. While there is residential property adjacent or close to the site, its pricing level within the London residential market does not necessarily establish the location. The projected rents and capital values are dependent on the successful establishment of the site as a location.

(c) *Planning*

Although it is likely that REO will seek planning permission for a revised scheme, the site does benefit from an outline planning permission for a scheme dated 21 January 2005. This is subject to certain conditions including Wandsworth Borough Council approving pre-commencement conditions and these remain to be discharged. The scheme is subject to certain planning restrictions. Obligations under section 206 of the Town and Country Planning Act 1990 relating to the scheme impose a restriction on occupation to the effect that the Power Station must be practically completed before any part of the development can be occupied or open to the public. This requirement is qualified by reference to a schedule of works, so that if the works as outlined in the schedule are completed, other parts of the development may be occupied. The section 106 agreement also contains a limitation in terms of the retail offer that may be provided on the site (being no more than 33 per cent. of the gross floor area) and requires that retail use must complement the leisure and entertainment complex. If REO were to implement the current scheme, such restrictions may impact the ability of REO to complete the scheme in the most profitable and efficient manner.

(d) *Development risk*

The development on the site will require substantial capital expenditure and will take a considerable amount of time before completion. REO will therefore need to raise additional capital either by way of further debt or by issuing equity or other forms of shareholder investments. There is no certainty that REO will be able to raise, either through debt financing or equity, the level of funds required to develop the site. Certain general risks will possibly affect the development and refurbishment activities on the site, including risks relating to completion (with the possibility of construction or restructuring and overruns, both in terms of time and budget), the risk of not obtaining, or delays in obtaining, necessary administrative permits, necessary third party consents, the risk of not finding any tenants at the desired rent levels, and risks relating to the financing of the development. Any of these could increase the cost or delay or prevent completion of the development on the site and could result in a loss of revenues or in capital invested.

Consequently, there can be no assurance that the development or sale of properties on the site will not have an adverse effect on REO's results of operations or financial condition.

(e) *Completion risk*

In common with all development projects the return made is substantially dependent on the completion of the development materially within the timescale and costs projected. The ability to complete any development on the site will be dependent on a wide range of interrelated factors including, *inter alia*, the quality of the project management process, the credit of the various contractors, the financing arrangements for the development, the successful and timely supply of materials and components, and the absence of accidents. Delays to and disruption of the development may have a material impact on its projected profitability.

(f) *Cost risks*

The profitability and, *in extremis*, the completion of the development is dependent on the accuracy of the estimates of costs made and included within the project model. REO will seek to minimise this risk by basing its cost estimates on the result of extensive and detailed research undertaken by costs consultants but there is a risk that the total development costs will exceed these estimates.

(g) *Taxation risk*

The effectiveness of the structure within which the site is held has certain tax assumptions concerning its treatment. If any of these assumptions prove to be incorrect it may reduce the return on the development profitability of the scheme. The site acquisition has been structured to take advantage of the tax treatment of offshore companies in the United Kingdom. It is possible that legislation may be passed which would change the tax treatment of the site acquisition in the United Kingdom thus affecting the tax liability of the entities acquired.

(h) *Terminal value risk*

The profit derived from the development on the site is dependent on the value of the development at the point of realisation. This is dependent on the level of income capable of being generated by the development, market views as to its prospects and the relationship between income and capital values at the time.

Key personnel

REO's success depends in part, upon the continued service and performance of the Directors, and of the senior management team of Treasury Holdings and certain other key personnel. These individuals may leave the employment of REO and/or Treasury Holdings (as applicable) in the future and may also seek to compete with REO. The loss of any of these individuals could have a material adverse effect on REO's business and financial conditions and results of operation.

Geographic concentration of properties

REO owns a concentration of Irish properties. Consequently, any downturn in the Irish property market or the Irish economy generally or regulatory changes in Ireland could affect REO's results or operations and financial condition.

Risk factors affecting the Group's industry

General risks relating to property

There are general risks connected with investment in real estate. In particular, as the weighting of the property portfolio is biased towards Ireland and the UK, investments made by the Company in property will be subject to the risks of such ownership, development and management in Ireland and the UK.

Despite the significant increase in property values in Ireland and in the UK, there can be no assurance that such increases will continue. Any future property market recession could materially adversely affect the value of the Company's properties.

Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the construction or redevelopment and management of the property, as well as upon changes in its market value.

Rental income and the market value of properties are generally affected by overall conditions in the local economy, such as growth in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises, especially for office space for commercial enterprises in the service sector. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors specific to the real estate market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and release space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

In addition, certain significant expenditures, including operating expenses, must be met by the owner even when the property is vacant.

Planning regulations

Changes in the legal framework concerning planning rules in Ireland or the UK may negatively influence the values of properties, making them unattractive for both leaseholders and potential purchasers. Accordingly, such changes may have an adverse impact on the Company's business.

Development of property

Development projects require substantial capital expenditure for land acquisition and construction and it usually takes a considerable amount of time before the projects are completed and begin to generate cash flows. Certain general risks affect development and refurbishment activities, including risks relating to completion (with the possibility of construction or restructuring and overruns, both in terms of time and budget), the risk of not obtaining, or delays in obtaining, necessary administrative permits, the risk of not finding any tenants at the desired rent levels, and risks relating to the financing of the development. Any of these could increase the cost or delay or prevent completion of a project and could result in a loss of revenues or in capital invested.

In addition, and despite insurance coverage, the development and sale of premises may also give rise to actions being brought against companies in which the Company may own an interest, in connection with defects in the property.

Consequently, there can be no assurance that the existing or future development or sale of properties will not have an adverse effect on REO's results of operations or financial condition.

Liquidity

Investments in property are relatively illiquid and more difficult to realise than equities or bonds.

Factors affecting the Irish and UK markets

In addition to the general economic factors mentioned above, rental income and the value of properties may be adversely affected by the cyclical nature of the property industry.

Debt financing and leverage

The property investment and development sector tends to be highly capital intensive. The Group has a significant level of debt in order to finance its property acquisition and development activities. Although REO hedges a substantial portion of its exposure to interest rate fluctuations, an increase in interest rates might adversely affect the Company's results of operations as its cost of financing increases.

In addition, the ability of the Company to raise funds for development activity on favourable terms depends on a number of factors including general economic, political and capital market conditions and credit availability from commercial banks. If the Company were to be confronted with a liquidity crisis in the future, whether for macroeconomic reasons or for reasons specific to the Company, it could significantly increase the Company's cost of funding or lead to serious difficulties for the Company in refinancing its debt. The Company could also be forced to sell assets, which may not be under the best conditions, in order not to default on its payment obligations.

Acquisition of property

In accordance with its strategy, the Company will continue to acquire property assets. Such acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of properties including adverse short-term effects on the Company's operating results, diversion of management's attention, and risks associated with unanticipated problems and latent liabilities or contingencies such as the existence of hazardous substances, for example asbestos, or other environmental liabilities. Additional risks inherent in acquisitions include risks that the acquired properties will not achieve anticipated rental rates or occupancy levels, and that judgements with respect to improvements to increase the financial returns of acquired properties will prove to have been inaccurate.

Competition

The Company may face significant competition from UK, Irish, European or other foreign property companies. Competition in the property market may lead either to an over-supply of premises through over-development or to prices for existing properties or land for development being driven up through competing bids by potential purchasers. Accordingly, the existence of such competition may have a material adverse impact on REO's ability to secure tenants for its properties at satisfactory rental rates and on a timely basis and to acquire properties or develop land at satisfactory prices.

Amenities and transportation infrastructure

The proximity of amenities and transportation infrastructure such as train stations and bus interchanges to property assets may change over time. There is no assurance that the amenities and transportation infrastructure and shuttle services will not be closed, relocated or terminated in the future. Such closure, relocation or termination may adversely affect the accessibility of the property assets. This may then have an adverse effect on the demand for and the rental rates in respect of the Group's property assets and adversely affect the financial position of the Group.

Uninsured risks

Although the Company will attempt to ensure that all its properties are adequately insured, changes in the cost and availability of insurance may expose REO to uninsured losses. Should a property incur a loss that is not fully covered, the value of the Company's assets will be reduced accordingly.

Inability to sell a property

Many different factors affect the property market, including investor and/or buyer supply and demand. REO cannot predict whether it will be able to sell a property for the desired price and/or on its desired terms, nor the length of time which will be needed to exchange and complete any sale.

Although REO recognises it may have to correct defects and make improvements to a property before it can be sold, there is no assurance REO will have funds available to undertake such work at the relevant time.

When purchasing a property, REO may agree to restrictions that prohibit or limit the sale of the property. Such provisions may restrict the Group's ability to sell the property.

Tenancies

The Group may opt to let some of the property it acquires. Although the Group will attempt to ensure that its tenants are of good financial standing, a decline in the financial stability of tenants may result in rent payment default which would cause a reduction in the Group's profits. Furthermore, the Group may experience delay in enforcing its rights as a landlord and incur substantial costs.

If a lease is terminated, there is no assurance the property can be re-let immediately or for the rent previously received. The Group may have to expend funds on new tenant improvements in the vacated space or provide financial inducements to the new tenant. Although the Group intends to manage its cash position to allow for such additional costs, the Group cannot be certain that adequate funding will be available as and when the need arises.

Environmental

If the Group fails to comply with environmental laws and regulations or faces environmental litigation, its costs may increase.

General investment risks

Share price volatility and liquidity

A number of factors outside the control of the Company may impact on its performance and the price of the Ordinary Shares and the New ZDP Shares, including investor sentiment, currency fluctuations and local and international stock market conditions. The price of the Ordinary Shares and/or the New ZDP Shares may fall as well as rise.

Taxation

Any change in the Company's or REO Securities' tax status or in taxation legislation, including rates of taxation, could affect the value of the investments held by the Company, affect the Company's results and its ability to provide returns to Ordinary Shareholders or New ZDP Shareholders, or alter the post tax returns to Ordinary Shareholders or New ZDP Shareholders.

Controlling shareholder

Treasury Holdings and its subsidiaries hold Ordinary Shares representing more than 50 per cent. of the issued Ordinary Share capital of the Company. Treasury Holdings is therefore in a position to increase its aggregate shareholding in the Company without incurring an obligation under Rule 9 of the City Code to make a general offer to Ordinary Shareholders. Treasury Holdings is also, by virtue of its holding of Ordinary Shares, able to exert a very significant degree of control over the conduct of the Company. In particular, Treasury Holdings has the power, subject to the Substantial Shareholder Agreement details of which are set out in paragraph 6 of Part V of the Prospectus, to appoint or remove directors and, subject to the provisions in the articles of association of the Company and the Undertaking Agreement, to control the Company's dividend policy.

EXPECTED TIMETABLE

The dates given below are based on REO's current expectations and may be subject to change. If the scheduled date of the Court Hearing to sanction the Scheme is changed then REO will give notice of the change by issuing an announcement through a Regulatory Information Service. All ZDP Shareholders have the right to attend the Court Hearing to sanction the Scheme.

16 January 2008	11.15 a.m.: Latest time for receipt of white form of proxy for the Court Meeting ¹
16 January 2008	11.25 a.m.: Latest time for receipt of pink form of proxy for the ZDP Class Meeting
16 January 2008	11.35 a.m.: Latest time for receipt of green form of proxy for the Ordinary Class Meeting
16 January 2008	11.45 a.m.: Latest time for receipt of blue form of proxy for the Extraordinary General Meeting
18 January 2008	11.15 a.m.: Court Meeting
18 January 2008	11.25 a.m.: ZDP Class Meeting ²
18 January 2008	11.35 a.m.: Ordinary Class Meeting ²
18 January 2008	11.45 a.m.: Extraordinary General Meeting ²
18 January 2008	11.55 a.m.: CULS Holders Meeting ²
14 February 2008	10.00 a.m.: Court Hearing to sanction the Scheme and confirm reduction of REO share premium account
14 February 2008	6.00 p.m.: Scheme Record Time ³
15 February 2008	Effective Date ³
15 February 2008	8.00 a.m.: New ZDP Shares admitted to Official List and credited to CREST accounts, dealings in the ZDP Shares suspended, ZDP Shares cancelled and dealings in New ZDP Shares commence on the London Stock Exchange ³
week commencing 25 February 2008	Despatch of New ZDP Share Certificates ³

¹ Forms of proxy for the Court Meeting not returned by this time may be handed to the chairman of the Court Meeting at the start of the Court Meeting.

² To commence at the time fixed or, if later, immediately following the conclusion or adjournment of the preceding meeting.

³ These dates are indicative only and will depend, inter alia, on the date upon which the Court sanctions the Scheme.

PART 1

CHAIRMAN'S LETTER

REAL ESTATE OPPORTUNITIES LIMITED

(Incorporated and registered in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 79679)

Directors

Raymond Yeoman Frederick Horney (*Chairman*)
Richard Joseph Barrett
Keith Anthony Jenkins
John Philip Jenkinson
Guy Willam Leech
Garth Peter Denis Milne
Martin Willaume Richardson

Registered Office:
Whiteley Chambers
Don Street
St. Helier
Jersey
JE4 9WG

To: Ordinary Shareholders, ZDP Shareholders and, for information only, to holders of 7.5 per cent. convertible unsecured loan stock 2011

18 December 2007

Dear Shareholder

Recommended proposals to cancel the ZDP Shares and to issue in exchange New ZDP Shares in REO Securities by means of a scheme of arrangement, to adopt new articles of association and to cancel the Company's share premium account

1 Introduction

Today your Board announced proposals to change the corporate structure of the Group in order to remove the current requirement that the Company be wound up in 2011. In order to facilitate this it is proposed to effect a scheme of arrangement to cancel all of the ZDP Shares and to issue New ZDP Shares to ZDP Shareholders on a one for one basis. The New ZDP Shares will be issued by a wholly owned subsidiary of the Company incorporated for this purpose. The rights of the New ZDP Shares, including the right to be repaid the existing final capital entitlement in full on the ZDP Repayment Date, will be substantially the same as the rights of the existing ZDP Shares although as a result of the arrangements described in this document being implemented the New ZDP Shares would effectively rank ahead of the Ordinary Shares with regard to the revenue reserves of the Company.

Your Board also announced certain other proposals involving the adoption of New Articles for the Company together with a cancellation of its share premium account.

The Proposals, which require the approval of Ordinary Shareholders, ZDP Shareholders and CULS Holders are being unanimously recommended by the Board, which has been advised by Landsbanki.

2 Overview of the Proposals

The Proposals envisage:

- replacing the ZDP Shares with New ZDP Shares issued by REO Securities pursuant to the Scheme;
- removing from the Articles the existing requirement to wind up the Company in 2011;
- removing from the Articles the current restriction on the Company paying dividends from the sale or other realisation of capital assets, in order to reflect the position of the Company as the holding company of a property group and to provide more flexibility regarding the payment of future dividends (subject as stated below);
- dividends being capped at 2.5 pence per share per annum until repayment of the full amount due to the New ZDP Shareholders and to the holder of the Loan Notes;
- removing the borrowing restrictions in the Articles to provide greater flexibility to the Group after May 2011; and

- cancelling the amount standing to the credit of the Company's share premium account to eliminate negative reserves and create a distributable reserve of the balance.

The Proposals provide that the position of the ZDP Shareholders will be safeguarded by an Undertaking Agreement between REO and REO Securities. The REO Securities Articles substantially replicate the rights of the ZDP Shares as they currently exist and the Undertaking Agreement requires, amongst other things, REO to seek the approval of the New ZDP Shareholders in the same way and for substantially the same matters as currently would be the case under the Existing Articles. The Undertaking Agreement also requires REO to comply with borrowing limits to which it is currently subject.

The Undertaking Agreement shall remain effective and binding on REO until expiry of the New ZDP Shares.

3 Background to and reasons for the Proposals

When the Company was launched in 2001 it was established with a planned winding up date in May 2011. The stated intention at that time was to put proposals to Shareholders ahead of the planned winding up date to effect a scheme of reconstruction giving both Ordinary and ZDP Shareholders the option of a full cash exit, or the option to extend their investment beyond the planned winding up date. The intention was that the Company would therefore not be required to realise its property portfolio or, thereby, to crystallise capital gains tax liabilities. The Existing Articles require either that the Company be wound up on the ZDP Repayment Date or that reconstruction proposals be proposed at that time which provide for the ZDP Shareholders to receive their final capital entitlement of 235.51p in cash on the ZDP Repayment Date.

The Scheme which is now being put forward is designed to enable the ZDP Shareholders to be repaid in full in 2011 without REO itself being wound up. This will remove uncertainty regarding the longer term future of REO, enabling it to continue to take on long term development projects in Ireland and elsewhere, which the Board believes to be in the best interests of the Ordinary Shareholders. Given the premium at which the Ordinary Shares have generally traded in recent years, the Board does not consider it necessary to provide for a cash exit for Ordinary Shareholders as those wishing to dispose of their Ordinary Shares may do so through the market.

4 The Scheme

The Scheme, if it is approved by Shareholders at the Meetings, CULS Holders at the CULS Holders Meeting and sanctioned by the Court, will involve the ZDP Shares being cancelled and, in exchange, the New ZDP Shares being issued to ZDP Shareholders on a one for one basis. The New ZDP Shares will be issued by a newly incorporated subsidiary of REO, REO Securities. Implementation of the Scheme will allow the New ZDP Shares to be repaid by way of the winding up of REO Securities on 31 May 2011 rather than the winding up or reconstruction of the Company itself.

The rights attached to the New ZDP Shares will be substantially similar to the rights attached to the ZDP Shares. In particular, the New ZDP Shares confer a right to receive a final capital entitlement of 235.51p per New ZDP Share (approximately £136 million in aggregate) on the winding up of REO Securities on 31 May 2011.

Pursuant to the Undertaking Agreement, conditional on the Scheme becoming effective, the assets of REO would effectively be made available to meet the entitlement of the New ZDP Shares on the ZDP Repayment Date after satisfaction of the Company's creditors (including holders of the CULS). These assets would include any amounts standing to the credit of the Company's revenue reserves which, under the Existing Articles, currently would be paid to Ordinary Shareholders in priority to the ZDP Shareholders on a winding up of the Company. The Undertaking Agreement also contains further covenants from the Company to protect the interests of the New ZDP Shareholders. Further details of these arrangements are set out in paragraph 8 of Part 3 of this document. Further details on REO Securities and the New ZDP Shares are set out in the accompanying Prospectus.

In the event that the Scheme is not approved by Shareholders at the Meetings or by CULS Holders at the CULS Holders Meeting or sanctioned by the Court, the Directors will, together with the Company's advisers, review the alternative options available to the Company.

Your attention is drawn to Part 2 of this document which contains a letter from Landsbanki explaining the Scheme. The Scheme is conditional upon certain conditions which are set out in paragraph 7 of the letter from Landsbanki.

Subject to the Scheme becoming effective, the credit arising on the cancellation of the ZDP Shares pursuant to the Scheme, in the sum of £577,558, will be available as a distributable reserve.

5 Rights of the New ZDP Shares

The rights of the New ZDP Shares are set out in the articles of association of REO Securities, which are summarised in paragraph 4 of Part 4 of this document. The rights of the New ZDP Shares following the implementation of the Scheme will be substantially similar to the rights of the existing ZDP Shares, taking the REO Securities Articles and the Undertaking Agreement together. Details of the material differences between the rights of the New ZDP Shares under the REO Securities Articles and the rights of the ZDP Shares under the Existing Articles are set out in paragraph 5 of Part 4 of this document.

6 Listing

Application has been made to the UK Listing Authority for all of the New ZDP Shares to be issued to be admitted to the Official List and for such shares to be admitted to trading on the main market of the London Stock Exchange. It is expected that the listing of the New ZDP Shares will become effective and that dealings in them will commence on 15 February 2008. Dealings in the ZDP Shares are expected to be suspended on that date and the listing of the ZDP Shares is expected to be cancelled 20 business days thereafter.

In order not to incur additional unnecessary expense the Board considers that it is not necessary to list the New ZDP Shares on either the Channel Islands Stock Exchange or the Irish Stock Exchange and, accordingly, no such application has been made in respect of the New ZDP Shares.

7 Adoption of New Articles

It is proposed that, conditional upon implementation of the Scheme, REO adopts the New Articles in lieu of the Existing Articles. Shareholders should note in particular that the New Articles do not provide for a fixed winding up date for the Company.

The New Articles also make certain other changes from the Existing Articles to update them generally, to take account of the cancellation of the ZDP Shares, to reflect the recent change of the Company's listing status from a property investment company to a property company and to reflect the Company's position as the holding company of a property group. The principal amendments contained in the New Articles are, in summary, as follows:

- The provision entitling the Ordinary Shares to receive on a liquidation the amount standing to the credit of the Company's revenue reserves, including the undistributed revenue profits for the then current year of the Company, has been removed in the New Articles.

The New Articles provide that all of the surplus assets of the Company (after all its liabilities) will be available for distribution to the Ordinary Shareholders upon a winding up of the Company. However, by virtue of the Undertaking Agreement, the amount due to REO Securities to fund the repayment of the ZDP Shares will be treated as a liability of the Company and therefore in effect any sum standing to the credit of the revenue reserves of the Company on the ZDP Repayment Date would, on a winding up of the Company, be available after the satisfaction of the Company's creditors (including the holders of the CULS) to meet the final capital entitlement of the New ZDP Shares in priority to the entitlement of Ordinary Shareholders.

- The Existing Articles provide that all monies realised on the sale or other realisation of any capital assets in excess of book value and all other monies in the nature of accretion to capital will not be treated as profits available for dividend. Under the New Articles it is proposed that this restriction be removed. However, in the Undertaking Agreement, the Company covenants not to pay more than 2.5p per annum per share by way of dividend to the Ordinary Shareholders for so long as there are any New ZDP Shares in issue.

- The Existing Articles require the Company to comply with the borrowing restrictions applicable to a property investment company listed on the stock exchanges on which its shares are listed. As the Company is no longer a property investment company this provision will not be included in the New Articles. However, in the Undertaking Agreement, REO undertakes to manage the affairs of the Group so as to ensure that the borrowing limits currently applicable be observed for so long as any New ZDP shares remain in issue.
- The Existing Articles set out detailed investment restrictions on the Company consistent with the requirements of the listing rules applicable to an investment company. These investment restrictions are not included in the New Articles.

A summary of the REO Securities Articles is set out in paragraph 4 of Part 4 of this document. The Existing Articles, the New Articles and the REO Securities Articles are all available for inspection as set out in paragraph 9 Part 4 of this document. A more detailed summary of the differences between the Existing Articles and the New Articles is set out in paragraph 6 of Part 3 of this document.

8 Cancellation of Share Premium Account

When the Company was launched in 2001 it invested in an income portfolio predominantly invested in split capital investment trusts and high yielding bonds. Substantial losses were incurred on these investments and as a result, as at 30 November 2007, there was a deficit of approximately £191.8 million standing to the Company's reserves. This figure has been extracted from the Company's unaudited accounting records.

Your Board proposes as part of the Proposals to cancel the whole amount standing to the credit of the Company's share premium account which, as at the date of this document, is the sum of £405.7 million. The credit arising would be used to eliminate the deficit in the Company's reserves and the balance will then be available as a distributable reserve, facilitating the payment of dividends or the repurchase of the Company's own shares. For illustrative purposes, on the basis of the deficit standing to the Company's reserves of £191.8 million referred to above and the share premium account as at the date of this document, a distributable reserve of £213.9 million would be created by this process. The Company intends to apply to the Court for confirmation of the cancellation of its share premium account and the creation of a distributable reserve in this manner.

The Court will need to be satisfied that the interests of the Company's creditors will not be prejudiced as a result of the reduction and the Company will take such steps in that regard as it deems appropriate and as is required by the Court.

Subject to the sanction of the Court and the Shareholder and CULS Holder approvals referred to below, it is anticipated that the cancellation of the amount standing to the credit of the Company's share premium account referred to above will become effective on the Effective Date. If the Scheme is not approved by the Court, or if for any other reason the Directors determine that it should not be implemented then the Directors will not proceed with the cancellation of the share premium account.

9 Approvals required for cancellation of share premium account

The cancellation of the Company's share premium account requires the following approvals:

- the passing of extraordinary resolution number 2 by the ZDP Shareholders at the ZDP Class Meeting;
- the passing of extraordinary resolution number 2 by the Ordinary Shareholders at the Ordinary Class Meeting;
- the passing of both special resolutions at the Extraordinary General Meeting;
- the sanction of the Court, referred to in paragraph 8 above; and
- the passing by CULS Holders of the extraordinary resolution at the CULS Holders Meeting.

10 Approvals required for the Scheme and adoption of the New Articles

Before it can be sanctioned by the Court, the Scheme requires the approval of ZDP Shareholders at the Court Meeting. Such approval must be given by a simple majority in number of the ZDP Shareholders present and voting (either in person or by proxy) at the Court Meeting representing not less than 75 per cent. in nominal value of the ZDP Shares held by such ZDP Shareholders.

In order that the Court can be satisfied that the votes cast fairly represent the views of ZDP Shareholders, it is important that as many votes as possible are cast at the Court Meeting. ZDP Shareholders are therefore urged to attend the Court Meeting in person or by proxy.

The Scheme and the adoption of New Articles also require the approval of ZDP Shareholders at the ZDP Class Meeting and the Ordinary Shareholders at the Ordinary Class Meeting. The quorum for the ZDP Class Meeting and the Ordinary Class Meeting is two persons holding or representing by proxy at least one third in nominal value of the relevant class of Shares or, if either meeting is adjourned, one holder, present in person or by proxy, regardless of the number of Shares held by that Shareholder.

The Scheme and the adoption of New Articles also require Ordinary Shareholders and ZDP Shareholders (voting together) to pass special resolution number 1 at the EGM.

The Scheme and the adoption of New Articles also require the approval of CULS Holders at the CULS Holders Meeting as referred to in paragraph 12 below.

11 Further Information

Your attention is drawn to the further information contained in Parts 3 and 4 of this document and the notices of the Meetings set out on pages 51 to 56 of this document. Further details on REO Securities and the New ZDP Shares are set out in the accompanying Prospectus.

Your attention is drawn to the section of this document entitled “Risk Factors” for a discussion of certain risk factors relating to the Company, the Ordinary Shares and the New ZDP Shares.

12 CULS

As the Proposals involve, *inter alia*, the cancellation of share premium account, cancellation of the ZDP Shares and the adoption of the New Articles, the Proposals require the consent of the CULS Holders and Prudential Trustee Company Limited in its capacity as trustee for the CULS Holders (the “Trustee”). REO has agreed that a separate meeting of the CULS Holders should be held for the purposes of giving the relevant consents and therefore this has been convened for 18 January 2008 by a separate circular sent to the CULS Holders. In order to be passed, the extraordinary resolution of CULS Holders being sought at the meeting requires at least three quarters of the votes cast to be in favour of it.

The quorum required for the CULS Holders Meeting is one or more CULS Holders present in person or by proxy representing in aggregate a clear majority by nominal value of the outstanding CULS. If a quorum is not present within 15 minutes (or such longer period not exceeding 30 minutes as the chairman of the meeting may decide) from the time appointed for the meeting, it will be adjourned to such day and time being not less than 13 nor more than 42 days thereafter, and at such place, as may be appointed by the chairman of the meeting. At such adjourned meeting, one or more CULS Holders present in person or by proxy will form a quorum. At least 7 days’ notice of any such adjourned CULS Holder meeting would need to be given to CULS Holders.

Accordingly, shareholders should note that if it is necessary to adjourn the CULS Holder’s Meeting on 18 January 2008 due to a lack of a quorum, the Effective Date may be delayed and the expected timetable set out on page 10 of this document may be delayed.

13 Action to be taken

As explained above, in order to be implemented and take effect the Scheme must be approved by ZDP Shareholders at the Court Meeting and the Proposals must be approved by ZDP Shareholders at the

ZDP Class Meeting, by Ordinary Shareholders at the Ordinary Class Meeting, by Shareholders at the Extraordinary General Meeting and by CULS Holders at the CULS Holders Meeting.

The extraordinary resolutions to be proposed at the Class Meetings each require a majority of not less than three quarters of the votes cast. The special resolutions to be proposed at the EGM require a majority of not less than two thirds of the votes cast.

Each of the Meetings has been convened for 18 January 2008. If either of the ZDP Class Meeting or the Ordinary Class Meeting is adjourned due to the lack of a quorum, such adjourned meeting will be held at the same venue on 18 January 2008 at 12.30 pm and 12.40 pm respectively. Further details of the Court Meeting, the ZDP Class Meeting, the Ordinary Class Meeting and the EGM are set out in Part 2 of this document.

Separate forms of proxy for use at the Meetings, as appropriate, are enclosed with this document. Whether or not you propose to attend in person at the relevant Meetings you are requested to complete, sign and return the appropriate forms of proxy, as described on the forms of proxy.

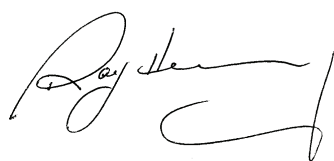
14 Recommendation

The Board, which has been advised by Landsbanki, considers that the terms of the Proposals are in the best interests of the Company and ZDP Shareholders and Ordinary Shareholders as a whole. In giving its advice, Landsbanki have had regard to the Board's commercial assessment of the Proposals.

The Board unanimously recommends ZDP Shareholders to vote in favour of the Scheme at the Court Meeting and the resolutions to be proposed at the ZDP Class Meeting and the EGM and Ordinary Shareholders to vote in favour of the resolutions to be proposed at the Ordinary Class Meeting and the EGM.

Members of the Board intend to vote their own beneficial shareholdings totalling 5,000 ZDP Shares (representing in aggregate approximately 0.009 per cent. of the issued ZDP share capital of the Company) and 8,676,192 Ordinary Shares (representing in aggregate approximately 2.6 per cent. of the issued Ordinary Share capital of the Company) in favour of the Proposals and Treasury Holdings has given an undertaking to vote in favour of the resolutions at the EGM and Ordinary Class Meeting in respect of its 222,629,571 Ordinary Shares, representing approximately 66.7 per cent. of the issued ordinary share capital of the Company.

Yours faithfully



Ray Horney
Chairman

PART 2

EXPLANATORY STATEMENT

(In compliance with Article 126 of the Companies (Jersey) Law 1991, as amended)

Landsbanki Securities (UK) Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7QR

18 December 2007

To: ZDP Shareholders and, for information purposes only, to Ordinary Shareholders and holders of 7.5 per cent. convertible unsecured loan stock 2011

Recommended Scheme

1 Introduction

Today REO announced its intention to change its corporate structure by cancelling its ZDP Shares and replacing them with New ZDP Shares to be issued by a newly incorporated Jersey subsidiary, REO Securities Limited. New ZDP Shares are proposed to be issued to ZDP Shareholders against cancellation of the existing ZDP Shares, on a one for one basis. It is proposed that this will be effected by way of a scheme of arrangement between REO and ZDP Shareholders under Article 125 of the Companies (Jersey) Law 1991, as amended.

The Scheme, set out in full in Part 5 of this document, is subject to various conditions as described below.

In addition, it is proposed that the Company adopts New Articles and cancels the amount standing to the credit of its share premium account and details on this are set out in the letter from the Chairman of REO in Part 1 of this document. **This explanatory statement, required by Jersey Law, relates only to the Scheme.**

Your attention is drawn to the letter from the Chairman of REO setting out the reasons for the Scheme and including the unanimous recommendation of the Directors of REO to ZDP Shareholders to vote in favour of the Scheme at the Court Meeting, the Extraordinary General Meeting and the ZDP Class Meeting. Parts 3, 4, 5 and 6 of this document form part of this Explanatory Statement.

The Directors have been advised by Landsbanki in connection with the Scheme. We have been authorised by the Directors to write to you to explain the terms of the Scheme and to provide you with other relevant information. The Scheme is set out in full in Part 5 of this document. The Notice of the Court Meeting at which approval for the Scheme will be sought, the Notice of the Extraordinary General Meeting at which a resolution relating to the Scheme will be proposed and the Notice of the ZDP Class Meeting are set out in Parts 7 and 8 of this document.

2 Background to and reasons for the Scheme

The background to and reasons for the Scheme are described in paragraph 3 of the Chairman's letter in Part 1 of this document.

3 Summary of the Scheme

Under the Scheme, the ZDP Shares will be cancelled on the Effective Date and in exchange ZDP Shareholders appearing in the register of members at the Scheme Record Time will receive:

for each ZDP Share cancelled one New ZDP Share

The New ZDP Shares will be issued fully paid by means of a capital contribution made by REO to REO Securities of approximately £600.

The Scheme authorises REO to pay all costs and expenses incurred in relation to the negotiation, preparation and implementation of the Scheme.

4 Relationship between REO and REO Securities

REO has entered into the Undertaking Agreement with REO Securities which is conditional upon the Scheme become effective. Under this agreement the net assets of REO will effectively be made available to meet the repayment entitlement of the New ZDP Shares on 31 May 2011 after payment of all other creditors of the Company at that time. REO has also agreed to meet the running costs of REO Securities. The Undertaking Agreement contains protections for New ZDP Shareholders, including in particular restrictions on REO entering into any transaction which, if it were entered into by REO Securities, would require the consent of the New ZDP Shareholders under the REO Securities Articles. The Undertaking Agreement also contains an obligation on REO to have due regard to interests of the holders of the New ZDP Shares.

Under the arrangements outlined above New ZDP Shareholders will participate in the assets of the Group in much the same way as ZDP Shareholders do at present except that the New ZDP Shares will rank ahead of the Ordinary Shares with respect to any revenue reserve of the Company. On a liquidation of REO, the repayment entitlement of the New ZDP Shares would effectively rank in priority to the capital entitlement of the Ordinary Shares, although it would be subordinated to the Group's bank borrowings, the CULS and other creditors.

The terms of the Undertaking Agreement are summarised in paragraph 8 of Part 3 of this document. The provisions of the REO Securities Articles are summarised in paragraph 4 of Part 4 of this document. Both documents are available for inspection as referred to in paragraph 9 of part 4 of this document.

5 Implementation of the Scheme

The Court Hearing to sanction the Scheme is expected to be held on 14 February 2008. ZDP Shareholders will have the right to attend the Court Hearing and to appear in person or be represented by counsel to apply to support or oppose the sanction of the Scheme. The Court Hearing will be held at the Royal Court of Jersey, Royal Court House, Royal Square, St. Helier, Jersey, JE1 1JG, Channel Islands.

The Scheme contains a provision for REO and REO Securities jointly to consent, on behalf of all persons concerned, to any modification of or addition to the Scheme, or to any condition that the Court may think fit to approve or impose. The Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme which might be material to the interests of ZDP Shareholders unless ZDP Shareholders were informed of any such modification, addition or condition. In such event it would be for the Court to decide, in its discretion, whether or not the consent of ZDP Shareholders should be sought at a further meeting. Similarly, if a modification, addition or condition is put forward which, in the opinion of the Directors, is of such a nature or importance as to require the consent of the ZDP Shareholders at a further meeting, the Directors will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained.

If the Scheme is sanctioned at the Court Hearing and the other conditions to the Scheme have been satisfied or waived, the Scheme is expected to become effective, and dealings in New ZDP Shares are expected to commence, on 15 February 2008. If the Scheme has not become effective by 30 June 2008 (or such later date as REO and REO Securities may agree and the Court may allow), it will lapse, in which event the existing ZDP Shares will not be cancelled and will continue to be listed on the Official List of the UK Listing Authority, the Channel Islands Stock Exchange and the Irish Stock Exchange and no New ZDP Shares will be issued.

6 Effects of the Scheme

The effect of the Scheme will be as follows:

- (i) ZDP Shareholders will exchange their shareholdings in REO for New ZDP Shares in REO Securities. The number of New ZDP Shares held by them will be exactly the same as the number of ZDP Shares currently held by them in REO.

- (ii) The entitlement of ZDP Shareholders to receive a final capital entitlement of 235.51p on the ZDP Repayment Date will be unchanged although this amount will be paid by REO Securities rather than by REO. The entitlement will be funded by REO pursuant to the terms of the Undertaking Agreement referred to below.
- (iii) The rights attached to the New ZDP Shares will be substantially similar to the rights attached to the existing ZDP Shares save as described in (iv) below. Further details of the rights which will attach to the New ZDP Shares are set out in part 4 of this document. The rights of the New ZDP Shareholders will effectively be enforceable against REO by means of the Undertaking Agreement referred to below.
- (iv) Under the Existing Articles, whilst in general the ZDP Shares rank in priority to the Ordinary Shares, on a winding up the Ordinary Shares rank *ahead* of the ZDP Shares as to any amount standing to the credit of the Company's revenue reserves including any undistributed revenue profits for the current year as at the date of the commencement of the winding up. In effect, by reason of the cancellation of the ZDP Shares, the issue of the New ZDP Shares, the Undertaking Agreement and the attendant adoption of the New Articles, this prior ranking in favour of Ordinary Shareholders will no longer obtain.

Immediately following the Scheme becoming effective, REO Securities will own no assets other than its rights under the Undertaking Agreement. ZDP Shareholders will not receive any amount in cash pursuant to the terms of the Scheme.

7 Conditions to implementation of the Scheme

The implementation of the Scheme is conditional on the following occurring:

- (a) the Scheme being approved by a majority in number, representing three-fourths in value, of those ZDP Shareholders present and voting, either in person or by proxy, at the Court Meeting;
- (b) special resolution number 1 to approve the matters in connection with the Scheme being duly passed at the Extraordinary General Meeting by a majority of not less than two-thirds of the votes cast;
- (c) extraordinary resolution number 1 being duly passed at the ZDP Class Meeting by a majority of not less than three quarters of the votes cast;
- (d) extraordinary resolution number 1 being duly passed at the Ordinary Class Meeting by a majority of not less than three quarters of the votes cast;
- (e) the extraordinary resolution to be proposed to the CULS Holders at the CULS Holders Meeting being duly passed by a majority of not less than three quarters of the votes cast;
- (f) the Scheme being sanctioned by the Court at the Court Hearing;
- (g) the Act of the Court sanctioning the Scheme under Article 125 of the Law being delivered to the Jersey Registrar of Companies for registration and the Act of Court and the minute confirming the reduction of capital in relation to the Scheme being registered by the Jersey Registrar of Companies; and
- (h) permission being granted by the UK Listing Authority to admit the New ZDP Shares to the Official List and to trading on the London Stock Exchange's market for listed securities.

The Directors will not take the necessary steps to implement the Scheme unless the above conditions have been satisfied or waived and, at the relevant time, they consider that it continues to be in REO's, the Ordinary Shareholders', the ZDP Shareholders' and the CULS Holders' best interests as a whole that the Scheme be implemented.

8 Listing, dealings, share certificates and settlement

Application will be made to the UK Listing Authority for the admission of 57,755,782 New ZDP Shares to the Official List and for the New ZDP Shares to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective and that dealings in the New ZDP Shares will commence on 15 February 2008. Dealings in the ZDP Shares are

expected to be suspended on 15 February 2008 and their listing is expected to be cancelled 20 business days thereafter.

These dates may be deferred if it is necessary to adjourn any meetings required to approve the arrangements described in this document or if there is any delay in obtaining the Court's sanction of the Scheme. In the event of a delay, the application for the ZDP Shares to be delisted will be deferred, so that the listing will not be cancelled until immediately before the Scheme becomes effective.

With effect from (and including) the Effective Date, all share certificates representing the ZDP Shares will cease to be valid and binding in respect of such holdings and should be destroyed.

The articles of association of REO Securities permit the holding of New ZDP Shares under the CREST system. REO Securities has applied for the New ZDP Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the New ZDP Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of New ZDP Shares who wish to receive and retain share certificates will be able to do so. ZDP Shareholders may, however, elect to receive New ZDP Shares in uncertificated form if they are a system-shareholder (as defined in the CREST Regulations) in relation to CREST.

For ZDP Shareholders who hold their ZDP Shares in a CREST account at the Scheme Record Time, New ZDP Shares are expected to be credited to the relevant CREST member account on 15 February 2008, the Effective Date. For those holding shares in certificated form at the Scheme Record Time, definitive share certificates for the New ZDP Shares are expected to be despatched within fifteen business days after the Effective Date. In the case of joint holders, certificates will be despatched to the joint holder whose name appears first in the register. All certificates will be sent by pre-paid first class post at the risk of the person entitled to them. Pending the despatch of certificates for New ZDP Shares, transfers of New ZDP Shares will be certified against the register of members of REO Securities. Temporary documents of title will not be issued in respect of the New ZDP Shares.

ZDP Shares held in uncertificated form will be disabled in CREST on the Effective Date. REO Securities reserves the right to issue New ZDP Shares to any or all Shareholders in certificated form if, for any reason, it wishes to do so.

All mandates (if any) in force at the Scheme Record Time relating to the ZDP Shares and all instructions given relating to notices and other communications will, unless and until varied or revoked, be treated, from the Effective Date, as being valid and effective mandates or instructions to REO Securities in relation to the corresponding holding of New ZDP Shares.

All documents, certificates, cheques or other communications sent by or to ZDP Shareholders, or as such persons shall direct, will be sent at their own risk and may be sent by post.

9 Directors' interests

All of the Directors of REO, whose names are set out in paragraph 2 of Part 3 of this document, have been appointed as Directors of REO Securities.

The interests of the Directors in the share capital and CULS of REO are set out in paragraph 4 of Part 3 of this document.

Mr. Barrett is a director and beneficial owner of 50 per cent. of the issued share capital of Treasury Holdings and Mr. Leech is a director of Treasury Holdings. Pursuant to contractual arrangements with the Company, Treasury Holdings receives fees and expenses for providing investment advice and property management services in relation to the portfolio of real property assets owned by the Group. Summaries of a global investment adviser agreement dated 5 December 2006 between the Company and Treasury Holdings and an Irish investment adviser agreement dated 5 December 2006 between the Company and Treasury Holdings are set out in paragraphs 6.10 and 6.11 of Part V of the Prospectus. Treasury Holdings also acts as accounting services agent to the Group pursuant to an agreement dated 18 July 2006, the terms of which are summarised in paragraph 4.4(d) of Part V of the Prospectus. On 12 October 2007 Treasury Holdings entered into an acquisition agreement with the Company for the sale to the Company of assets, the terms of which are summarised in paragraph 6.5 of Part V of the

Prospectus. On 11 April 2005 Treasury Holdings entered into a substantial shareholder agreement with the Company, the terms of which are summarised in paragraph 6.13 of Part V of the Prospectus.

During the financial year ended 31 December 2006, Mr Horney was paid director's fees of £80,000, Mr. Barrett was paid fees of £25,000 and each of the other Directors serving during that year was paid fees of £35,000. In addition, the following Directors received the following fees for services to the Company's litigation committee: Mr Horney £7,963, Mr Jenkins £3,675 and Mr Jenkinson £4,025. The total emoluments receivable by each of the Directors will not be varied as a result of the Scheme. There are no service contracts between the Directors and the Company or REO Securities and no fees will be paid to the Directors by REO Securities.

The effect of the Scheme on the interests of the Directors and the Ordinary Shares, ZDP Shares and CULS held by them does not differ from its effect on the like interests of other persons.

10 UK taxation

General

The following comments summarise certain UK tax implications of the Scheme. They are based on current UK tax law and the current practice of HM Revenue & Customs (HMRC), both of which are subject to change, possibly with retrospective effect. The summary is intended to apply only to ZDP Shareholders who are resident (or, in the case of an individual, ordinarily resident) in the UK for UK tax purposes, who hold their shares as investments and who are the beneficial owners of those shares. The summary is not intended to apply to certain classes of ZDP Shareholder such as dealers in securities. Any ZDP Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

Taxation of capital gains

The Scheme will be a scheme of reconstruction for the purposes of UK taxation of chargeable gains. Accordingly, a ZDP Shareholder who receives New ZDP Shares under the Scheme should be treated as not having made a disposal of his ZDP Shares. Instead "roll-over" treatment should apply, which means that the New ZDP Shares should be treated as the same asset as the ZDP Shares in respect of which they are issued and treated as acquired at the same time as those ZDP Shares and for the same acquisition cost.

A subsequent disposal of New ZDP Shares may, depending on the holder's circumstances, give rise to a liability to UK taxation of chargeable gains.

For a corporate ZDP Shareholder, indexation allowance will continue to be available in respect of the acquisition cost of the ZDP Shares which is rolled-over into the New ZDP Shares until the New ZDP Shares are disposed of. Broadly, indexation allowance increases the acquisition cost of an asset for tax purposes in line with the rise in the retail prices index, except that indexation allowance cannot be used to create or increase a loss for tax purposes.

If a ZDP Shareholder, alone or together with persons connected with him, holds more than 5 per cent. of the ZDP Shares, such a ZDP Shareholder will be eligible for the "roll-over" treatment described above only if the Scheme is effected for bona fide commercial reasons and does not form part of a scheme or arrangement of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax. Clearance has been obtained from HMRC under section 138 Taxation of Chargeable Gains Act 1992 that HMRC is satisfied that the Scheme will be effected for bona fide commercial reasons and will not form part of such a scheme or arrangement.

Further information regarding certain UK taxation consequences for certain categories of UK resident (or, in the case of an individual, ordinarily resident) Shareholder of holding and disposing of the New ZDP Shares is set out in paragraph 8 of Part V of the Prospectus.

Taxation of income

The Scheme should not be treated as involving a distribution subject to UK tax as income.

Stamp duty and stamp duty reserve tax (SDRT)

No stamp duty or SDRT will generally be payable by ZDP Shareholders as a result of the cancellation of ZDP Shares and the issue of New ZDP Shares under the Scheme.

PEPs and ISAs

If existing ZDP Shareholders currently hold ZDP Shares in a PEP or an ISA, the New ZDP Shares should qualify for inclusion in a PEP or in the stocks and shares component of an ISA.

New ZDP Shares purchased in the market should qualify for inclusion in a PEP or in the stocks and shares component of an ISA.

11 Overseas share owners

The implications of the Scheme for persons resident in, or citizens or nationals of, jurisdictions outside the United Kingdom and Jersey (**overseas share owners**) may be affected by the laws of the relevant jurisdictions. Such overseas share owners should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Scheme, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

If, in respect of any overseas share owners, REO Securities is advised that the allotment and issue of New ZDP Shares would or might infringe the laws of any jurisdiction outside the United Kingdom or Jersey, or would or might require REO Securities to obtain any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of REO Securities, it would be unable to comply or which it regards as unduly onerous, the Scheme provides that REO Securities may determine either (i) that the share owner's entitlement to New ZDP Shares shall be issued to a nominee for such share owner appointed by REO Securities and then sold, with the net proceeds being remitted to the share owner concerned; or (ii) that the share owner's entitlement to New ZDP Shares pursuant to the Scheme shall be issued to such share owner and then sold on his behalf as soon as reasonably practical at the best price which can be reasonably obtained at the time of sale, with the net proceeds of sale being remitted to the share owner. Any remittance of the net proceeds of sale referred to in this paragraph shall be at the risk of the relevant holder.

Overseas share owners should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

12 Meetings

The Scheme will require approval at the following Meetings:

- the approval of ZDP Shareholders at the Court Meeting held at the discretion of the Court;
- the passing by ZDP Shareholders of extraordinary resolution number 1 to be proposed at the ZDP Class Meeting;
- the passing by Ordinary Shareholders of extraordinary resolution number 1 to be proposed at the Ordinary Class Meeting;
- the passing by ZDP Shareholders and Ordinary Shareholders (voting together) of special resolution number 1 relating to the Scheme to be proposed at the Extraordinary General Meeting; and
- the passing by CULS Holders of the extraordinary resolution to be proposed at the CULS Holders Meeting.

Notices of the Court Meeting, the ZDP Class Meeting, the Ordinary Class Meeting and the Extraordinary General Meeting are set out in Parts 7 and 8 respectively of this document. Notice of the CULS Holders Meeting has been sent to CULS Holders by separate circular.

Court Meeting

The Court Meeting at which ZDP Shareholders will consider and, if thought fit, approve the Scheme has been convened for 18 January 2008 at 11.15 a.m. pursuant to an order of the Court giving the Company leave to convene that meeting.

At the Court Meeting, voting will be by poll and each ZDP Shareholder present in person or by proxy will be entitled to one vote for each ZDP Share held. The statutory majority required to approve the Scheme at the Court Meeting is a majority in number of the ZDP Shareholders present and voting (either in person or by proxy) at the Court Meeting representing three-fourths in value of the ZDP Shares held by them.

In order that the Court be satisfied that the votes cast constitute a fair representation of the views of the ZDP Shareholders, it is important that as many votes as possible are cast at the Court Meeting. ZDP Shareholders are therefore encouraged to take the action referred to in paragraph 13 below.

It is important for ZDP Shareholders to be aware that, if the Scheme becomes effective, it will be binding on all ZDP Shareholders, irrespective of whether they attend the Court Meeting and irrespective of the manner (if any) in which they voted.

The Court Meeting will take place at Whiteley Chambers, Don Street, St. Helier, Jersey. Only ZDP Shareholders are entitled to attend and vote at the Court Meeting.

ZDP Class Meeting

The ZDP Class Meeting has been convened for 18 January 2008 at 11.25 a.m. (or as soon thereafter as the Court Meeting shall have concluded or been adjourned) to enable ZDP Shareholders to consider, and if thought fit, pass an extraordinary resolution consenting to any variation of their class rights which might arise under or as a result of the implementation of the Scheme and its approval by the Shareholders. In the event that this meeting is adjourned due to the absence of a quorum, the adjourned meeting will be held at the same venue at 12.30 p.m. on 18 January 2008.

The ZDP Class Meeting will take place at Whiteley Chambers, Don Street, St. Helier, Jersey. Only ZDP Shareholders are entitled to attend and vote at the ZDP Class Meeting.

Ordinary Class Meeting

A meeting of Ordinary Shareholders has been convened for 18 January 2008 at 11.35 a.m. (or as soon thereafter as the ZDP Class Meeting shall have concluded or been adjourned) to enable Ordinary Shareholders to consider, and if thought fit, pass an extraordinary resolution consenting to any variation of their class rights which might arise under or as a result of the implementation of the Scheme and its approval by the Shareholders. In the event that this meeting is adjourned due to the absence of a quorum, the adjourned meeting will be held at the same venue at 12.40 p.m. on 18 January 2008.

The Ordinary Class Meeting will take place at Whiteley Chambers, Don Street, St. Helier, Jersey. Only Ordinary Shareholders are entitled to attend and vote at the Ordinary Class Meeting.

Extraordinary General Meeting

The Extraordinary General Meeting has been convened for 18 January 2008 at 11.45 a.m. (or as soon thereafter as the Ordinary Class Meeting concludes or is adjourned). A description of the business to be transacted at the Extraordinary General Meeting is set out in the Notice of the Extraordinary General Meeting at the end of this document. Only special resolution number 1 is relevant to the Scheme and ZDP Shareholders and Ordinary Shareholders are entitled to vote (together) in respect of special resolution number 1. At the Extraordinary General Meeting, Ordinary and ZDP Shareholders will be asked to consider and, if thought fit, pass special resolution number 1 to approve:

- (a) the Scheme;
- (b) the cancellation of the Scheme Shares;
- (c) conditional on the Scheme becoming effective, the adoption of the New Articles in substitution for the Existing Articles;
- (d) conditional upon the Scheme becoming effective, the reclassification of the residual authorised but unissued ZDP Share capital as unissued Ordinary Shares;

- (e) the terms of the Undertaking Agreement;
- (f) conditional on the Scheme becoming effective, the de-listing of the ZDP Shares from the Official Lists of the UK Listing Authority, the Irish Stock Exchange and the Channel Islands Stock Exchange; and
- (g) the amendment to the memorandum of association of the Company to recite the new share capital of the Company upon the passing of the special resolution.

The majority required for the passing of the special resolution referred to above is not less than two thirds of the votes cast. Special resolution number 1 is not conditional on resolution number 2 which relates to the reduction of share premium account of REO.

The Extraordinary General Meeting will take place at Whiteley Chambers, Don Street, St. Helier, Jersey. Ordinary and ZDP Shareholders are entitled to attend and vote in respect of special resolution number 1 at the EGM.

Notices of all of the above meetings in respect of the Scheme are set out on pages 51 to 56 of this document.

13 Action to be taken

Forms of proxy for Shareholders are enclosed as follows:

- (a) for the Court Meeting, a white form of proxy;
- (b) for the ZDP Class Meeting, a pink form of proxy;
- (c) for the Ordinary Class Meeting, a green form of proxy; and
- (d) for the Extraordinary General Meeting, a blue form of proxy.

Whether or not you propose to attend the Meetings in person, you are requested to complete and sign the forms of proxy.

Completed forms of proxy should be returned by post or by hand to Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, as soon as possible, and in any case so as to be received by Capita Registrars not later than 11.15 a.m. on 16 January 2008 in relation to the white form of proxy relating to the Court Meeting, 11.25 a.m. on 16 January 2008 in relation to the pink form of proxy for the ZDP Class Meeting and 11.45 a.m. on 16 January 2008 in relation to the blue form of proxy relating to the Extraordinary General Meeting.

The white form of proxy in respect of the Court Meeting may be handed to the chairman of the meeting at the start of the Court Meeting and still be valid. However, in the case of the Class Meetings and the EGM, unless the relevant form of proxy is lodged so as to be received at least 48 hours before the meeting, it will be invalid.

The lodging of a form of proxy will not prevent you from attending either the Court Meeting or the ZDP Class Meeting or the Extraordinary General Meeting and voting in person if you are entitled to do so.

14 Further information

Your attention is drawn to the letter from your Chairman set out in Part 1 of this document, the Scheme (which is set out in full in Part 5 of this document) and the additional information set out in Parts 3 and 4 of this document.

Yours faithfully

Paul Fincham

Director

for and on behalf of

Landsbanki Securities (UK) Limited

PART 3

ADDITIONAL INFORMATION ON THE COMPANY

1. The Company

The Company was incorporated and registered with limited liability in Jersey as a public company under the Companies (Jersey) Law 1991, as amended, with registered number 79679 on 30 March 2001. The Company operates under the Companies (Jersey) Law 1991 and the regulations made thereunder.

The registered office and the principal place of business of the Company is at Whiteley Chambers, Don Street, St. Helier, Jersey, JE4 9WG (telephone number +44(0)1534 504000).

2. REO Directors

The Directors and their principal functions are:

<i>Name</i>	<i>Position</i>
RYF Horney	<i>Non-executive Director and Chairman</i>
RJ Barrett	<i>Non-executive Director</i>
KA Jenkins	<i>Non-executive Director</i>
JP Jenkinson	<i>Non-executive Director</i>
GW Leech	<i>Non-executive Director</i>
GPD Milne	<i>Non-executive Director</i>
MWR Richardson	<i>Non-executive Director</i>

The business address of each of the Directors of REO is Whiteley Chambers, Don Street, St. Helier, Jersey, JE4 9WG.

3. Share Capital of the Company

The authorised and issued, fully paid share capital of the Company as at the date of this document is as follows:

<i>Authorised</i>	
600,000,000 Ordinary Shares	£6,000,000
300,000,000 ZDP Shares	£3,000,000

<i>Issued</i>	
333,791,487 Ordinary Shares	£3,337,914.87
57,755,782 ZDP Shares	£577,557.82

The authorised and issued fully paid share capital of the Company on the basis that the Scheme becomes effective and the existing authorised but unissued ZDP Shares are reclassified as Ordinary Shares will be as follows:

<i>Authorised</i>	
842,244,218 Ordinary Shares	£8,422,442.18

<i>Issued</i>	
333,791,487 Ordinary Shares	£3,337,914.87

4. Directors' interests

- (a) As at 14 December 2007 (being the latest practicable date prior to the posting of this document), the interests of the Directors and their immediate families in the issued share capital of the Company and the CULS which have been notified by each Director to the Company were as follows:

<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>% of issued Ordinary Shares</i>	<i>Number of ZDP Shares</i>	<i>CULS £1 units</i>
RYF Horney ¹	8,151,192	2.4	–	4,162,970
RJ Barrett ²	222,629,571	66.7	–	9,328,790
KA Jenkins ³	50,000	0.002	–	20,000
JP Jenkinson	–	–	–	–
GW Leech	–	–	–	–
GPD Milne ⁴	400,000	0.12	5,000	–
MWR Richardson ⁵	75,000	0.02	–	–

Notes:

1. Of the Ordinary Shares in which Mr Horney is interested, 304,782 are held in the name of Cheviot Capital (Nominees) Limited acting as custodian for Orbis Trustees Limited. Orbis Trustees Limited act as trustee of certain trusts under which Mr Horney and/or members of his family are beneficiaries. Additionally, 7,846,384 Ordinary Shares are held by Kleinwort Benson (Guernsey) Trustees Limited, which acts as trustee of certain trusts under Mr Horney and/or members of his family are beneficiaries. As at 12 December 2007 Mr Horney, jointly with INVESCO Asset Management Limited, held a further 26 Ordinary Shares as nominees for the Company. Of Mr Horney's interest in the CULS, 904,800 and 500,000 units are again held by Cheviot Capital (Nominees) Limited and 3,258,168 units are held by HSDL Nominees Limited under which Mr Horney and/or members of his family are beneficiaries. As at 12 December 2007 Mr Horney jointly with INVESCO Asset Management Limited held a further 2 CULS units as nominees for the Company.
2. The interests of Mr Barrett in the Ordinary Shares are represented by the shareholding of Treasury Holdings, in which Mr. Barrett has a 50 per cent. beneficial interest and by the shareholdings of Brossbar Limited, M1 Development Company Limited and IREO Irish Real Estate Opportunities Fund plc which are subsidiaries of Treasury Holdings. The interests of Mr. Barrett in the CULS are represented by the shareholding of IREO Irish Real Estate Opportunities Fund plc.
3. Of the Ordinary Shares in which Mr Jenkins is interested, 25,000 Ordinary Shares together with the CULS in which he is interested are held by James Chapel (Channel Islands) Nominees Limited.
4. The Ordinary Shares beneficially owned by Mr Milne are registered in the name of Brewin Nominees Limited.
5. The Ordinary Shares beneficially owned by Mr Richardson are registered in the name of Forest Nominees Limited.

- (b) Save as aforesaid, the Directors do not have any interest in the share capital of the Company.
- (c) Mr Barrett is a director and beneficial owner of 50 per cent. of the issued share capital of Treasury Holdings. Pursuant to the contractual arrangements with the Company (details of which are referred to in the material contracts referred to in paragraph 5(b) below), Treasury Holdings receives an annual fee and expenses for providing investment advice and property management services in relation to the portfolio of real property assets owned by the Group.

5. Material Contracts

- (a) By an agreement dated 30 October 2007 between the Company and Oriental Property Limited, the holder of the Loan Notes (the "Loan Noteholder"), conditional upon the reduction of share premium account becoming effective, the Company covenants with the Loan Noteholder that until the date upon which all of the Loan Notes have been redeemed or repaid, except with the previous written consent of the Loan Noteholder, the Company will not distribute to its Ordinary Shareholders dividends amounting to more than 2.5p per Ordinary Share in aggregate, in respect of any year running from 1 January to 31 December. The Loan Notes, if not previously redeemed, are repayable by the Company on 31 May 2011.
- (b) A summary of the other material contracts entered into by the Group is set out in paragraph 6 of Part V of the Prospectus and paragraph 8 of this Part 3 of this document.

6. Summary of amendments to the Existing Articles by reason of adopting the New Articles

At the EGM it is proposed to pass a special resolution of the Company to replace the Existing Articles with the New Articles conditional upon the Scheme becoming effective. A summary of the principal differences between the Existing Articles and the New Articles is as follows:

- (a) Under Article 144 of the Existing Articles, the Directors are obliged to convene an EGM of the Company to be held on 31 May 2011 at which a special resolution would be proposed requiring the Company to be wound-up summarily. This article together with all related articles including the requirement to pay a final interim dividend to Ordinary Shareholders immediately prior to such extraordinary general meeting are removed in the New Articles;
- (b) The New Articles reflect the fact that with effect from the implementation of the Scheme the authorised share capital of the Company will be £8,422,442.18 divided into 842,244,218 Ordinary Shares and there will be no zero dividend preference share capital. All references to the ZDP Shares have been removed;
- (c) References throughout the Existing Articles to the Financial Services Act 1986 are updated in the New Articles to refer to the Financial Services and Markets Act 2000;
- (d) Under the Existing Articles, the Ordinary Shareholders have a class vote in circumstances where the Company proposes (i) to issue further shares or securities, or rights to subscribe for, or to convert or exchange any securities into shares or securities or re-classify any shares in circumstances where the Ordinary Share Test (as defined in the Existing Articles) is not met or (ii) to pass a resolution reducing the capital of the Company including any resolution authorising the Company to purchase shares save where the Ordinary Share Test would be met following any such purchase. The holders of the Ordinary Shares also have a class vote where the Company proposes to issue further shares or securities, or rights to subscribe for, or to convert or exchange any securities into, shares or securities or re-classify any shares where such shares or securities rank for dividends and other distributions in priority to the Ordinary Shares then in issue or where the Company proposes to pass a resolution for the capitalisation of any profits or reserves of a revenue nature or to alter the Company's accounting reference date from 31 December.

The Ordinary Share Test requires the Company's auditors to report that in their opinion any new shares, securities or rights to be issued, reclassified or purchased are issued, reclassified or purchased on terms such that the net asset value per Ordinary Share immediately after such issue, exercise, reclassification or purchase is not less than the net asset value per Ordinary Share immediately prior to such issue, exercise, reclassification or purchase.

The New Articles retain the class vote provisions referred to above save in respect of any capitalisation of profits or reserves of a revenue nature or save for any alteration to the accounting reference date. The New Articles extend the class vote rights referred to above to include a repurchase of New ZDP Shares by REO Securities;

- (e) Under the Existing Articles, it is envisaged that immediately prior to the extraordinary general meeting convened to put the Company into liquidation on 31 May 2011, the Company would pay to the Ordinary Shareholders an amount equal to the directors' best estimate of the revenue profits of the Company (including accumulated revenue reserves) available for distribution. Taking into account the revised structure of the Group, this provision has been deleted in the New Articles;
- (f) Article 9 of the Existing Articles provides that all of the unissued shares of the Company shall be at the disposal of the Directors provided that no such shares shall be issued on terms which materially prejudice the interests of any existing holders of shares in the Company. The New Articles do not contain this proviso;
- (g) Article 53 of the Existing Articles, relating to the notice of general meetings, provides that at least 20 working days' notice (or such other notice (being not less than 21 clear days approved by the directors)) specifying the place, the day and the hour of the meeting shall be given. The New Articles replace these notice provisions by specifying simply that not less than 21 clear days' notice shall be given;
- (h) Article 116 of the Existing Articles provides that all monies realised on the sale or other realisation of any capital assets in excess of book value and all other moneys in the nature of accretion to capital will not be treated as profits available for dividend. Under the New Articles

such restriction is removed. It should be noted, however, that under the Undertaking Agreement, the Company has committed not to pay more than 2.5p per share per annum by way of dividend to the Ordinary Shareholders for so long as there are any New ZDP Shares in issue;

- (i) Under Article 150 of the Existing Articles, the Company has committed to comply with the borrowing restrictions applicable to a property investment company listed on the stock exchanges on which the shares are listed. As the Company is no longer a property investment company the New Articles do not contain this or any other borrowing restriction; and
- (j) Article 151 of the Existing Articles provides detailed investment restrictions on the Company. These restrictions were included in the Existing Articles to reflect the Company's original status as a split capital investment fund with a significant securities portfolio. In light of the change of the Company's status to a property company, the investment restrictions on the Company are removed in their entirety from the New Articles.

The rights of the New ZDP Shares will be contained in the REO Securities Articles, a summary of which is contained in paragraph 4 of Part 4 of this document.

7. Memorandum of association of REO

The memorandum of association of REO will be amended by special resolution number 1 to be proposed at the EGM to provide that, conditional on the Scheme being implemented, the authorised share capital of the Company will be £8,442,422.18 divided into 842,244,218 Ordinary Shares and there will be no zero dividend preference share capital.

8. Undertaking Agreement

An undertaking agreement dated 17 December 2007 has been entered into between REO and REO Securities, which is conditional upon the Scheme becoming effective. Pursuant to this agreement the Company agrees to contribute to REO Securities (by way of gift, capital contribution or otherwise) such amount as will result in REO Securities having sufficient assets to satisfy the then current or, as the case may be, final capital entitlement of the New ZDP Shares on the ZDP Repayment Date or any earlier winding up of REO Securities under the REO Securities Articles. Pursuant to the Undertaking Agreement, the Company's obligations shall, in the event of the winding up of the Company, be subordinated in right of payment to the claims of the other unsecured creditors of the Company. In addition the Company covenants to REO Securities (for its own benefit and as trustee for the holders of the New ZDP Shares) that, whilst it remains liable to make any payment under the Undertaking Agreement it will:

- (a) not vote to pass a resolution at any general meeting of REO Securities relating to any matters which would require the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares in accordance with the REO Securities Articles unless such previous sanction has first been obtained;
- (b) not (and shall, so far as it is able, procure that none of its subsidiaries shall) enter into or permit any transaction or pass any resolution which, if it were entered into or permitted or passed by REO Securities, would require the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares under the REO Securities Articles or otherwise as required by law, without such previous sanction having first been obtained;
- (c) not without the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares itself undertake and procure that other members of the Group will not undertake any of the matters requiring the consent of the holders of the New ZDP Shares under the REO Securities Articles;
- (d) except with the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares or as required by law, not distribute to the holders of the Ordinary Shares dividends amounting to more than 2.5p per share in aggregate, in respect of any year running from 1 January to 31 December;
- (e) except with the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares or as required by law or the UK Listing Authority,

ensure that the Board of Directors of the REO Securities as constituted from time to time are the same individuals who form the Board of Directors of the Company;

- (f) except with the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of the New ZDP Shares or as required by law, restrict the borrowings of the Company and shall exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to procure (as regards the subsidiaries, to such extent possible) that the aggregate principal amount from time to time outstanding in respect of all monies borrowed (as defined in the Existing Articles of the Company) from time to time by the Company and its subsidiaries does not exceed the limit specified in the Existing Articles of the Company;
- (g) have due regard to the interests of the holders of the New ZDP Shares;
- (h) meet the running costs of REO Securities; and
- (i) not transfer its ownership of the ordinary shares which it owns in REO Securities.

PART 4

ADDITIONAL INFORMATION ON THE SUBSIDIARY

1. Incorporation and activity of REO Securities

- (a) REO Securities was incorporated and registered with limited liability in Jersey on 27 April 2007 as a public company under the Companies (Jersey) Law 1991, as amended.
- (b) The registered office of and the principal place of business of REO Securities is at Whiteley Chambers, Don Street, St. Helier, Jersey, JE4 9WG.
- (c) REO Securities has not traded since its incorporation.

2. Directors of REO Securities

The directors of REO Securities and their positions are as follows:

<i>Name</i>	<i>Position</i>
RYF Horney	<i>Non-executive Director and Chairman</i>
RJ Barrett	<i>Non-executive Director</i>
KA Jenkins	<i>Non-executive Director</i>
JP Jenkinson	<i>Non-executive Director</i>
GW Leech	<i>Non-executive Director</i>
GPD Milne	<i>Non-executive Director</i>
MWR Richardson	<i>Non-executive Director</i>

3. Share capital of REO Securities

- (a) On incorporation, the authorised share capital of REO Securities was £1,600 divided into 60,000,000 New ZDP Shares of 0.001 pence each and 1,000 ordinary shares of £1 each. Two ordinary shares have been issued and are owned by REO.
- (b) By written resolution of REO Securities dated 17 December 2007, it was resolved that conditional upon the Scheme becoming effective, REO Securities be authorised for the period until the earlier of 16 June 2009 or the date of the first annual general meeting of REO Securities to make market purchases of New ZDP Shares subject to the maximum number of 57,755,782, being 100 per cent. of the New ZDP Shares to be issued pursuant to the Scheme, and the minimum and maximum price which may be paid for each New ZDP Share as stated in the resolution.
- (c) Save as disclosed in this paragraph 3, at the date of this document there has been no issue of share or loan capital of REO Securities since its incorporation and no share or loan capital of REO Securities is under option or agreed to be put under option.
- (d) At the date of this document, REO Securities has no subsidiaries and, accordingly, there has been no material issue of share or loan capital by any subsidiary undertaking of REO Securities for cash or other consideration.
- (e) The New ZDP Shares will, when issued, be in registered form and the New ZDP Shares will be capable of being held in uncertificated form. No temporary documents of title have been or will be issued in respect of the New ZDP Shares.
- (f) The New ZDP Shares have not been marketed, nor are they available in whole or in part to the public otherwise than pursuant to the Scheme.
- (g) No commissions, discounts, brokerages or other special terms have been granted in respect of the issue of any share capital of REO Securities.
- (h) Under the Scheme REO Securities will issue New ZDP Shares, credited as fully paid, to the Scheme Share Owners on the following basis:

for each Scheme Share

one New ZDP Share

- (i) Accordingly, the proposed authorised, issued and fully paid share capital of REO Securities as it will be following the Effective Date is as follows:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Nominal value</i>	<i>Number</i>	<i>Nominal value</i>
New ZDP Shares	60,000,000	£600	57,755,782	£577.56
Ordinary Shares	1,000	£1,000	2	£2

4. Articles of Association of REO Securities

The Articles of REO Securities contain, *inter alia*, the provisions which are summarised below. In this paragraph 4 references to “ordinary shares” are to ordinary shares of £1 each in REO Securities:

(a) ***Rights attaching to the New ZDP Shares and the ordinary shares***

(i) As to dividends:

- (1) the New ZDP Shares carry no right to receive dividends out of the revenue or any other profits of REO Securities; and
- (2) the ordinary shares carry the right to receive the profits of REO Securities (including accumulated revenue reserves) available for distribution and determined to be distributed by way of interim and/or final dividends and at such time as the Directors may determine.

(ii) As to winding-up, after the payment of REO Securities’ liabilities in full:

- (1) first, there shall be paid to the holders of the New ZDP Shares 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; and
- (2) second, there shall be paid to the holders of the ordinary shares the surplus assets of REO Securities available for distribution.

(iii) As to voting:

- (1) (A) the holders of the New ZDP Shares shall have the right to receive notice of general meetings of REO Securities and, for information only, the Company but shall not have the right to attend or vote at any general meeting of REO Securities 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 or, subject as provided in paragraphs 3(B) and 3(C) below, on any resolution to wind up REO Securities and at any meeting where such business is to be considered such holders shall be entitled to vote in relation to such business alone; and
(B) where by virtue of the provisions of paragraph (A) above the holders of the New ZDP Shares are entitled to vote, every such holder present in person or by a duly authorised representative (if a corporation) at a meeting shall, in relation to such business, have one vote in respect of every New ZDP Share held by him;
- (2) (A) the holders of the ordinary shares shall have the right to receive notice of, and to attend and vote at, general meetings of REO Securities; and
(B) each holder of ordinary shares being present in person or by a duly authorised representative (if a corporation) at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by a duly authorised representative (if a corporation) shall have one vote in respect of every ordinary share held by him;

- (3) (A) subject to paragraphs 3(B) and 3(C) below, REO Securities shall not without the previous sanction of an extraordinary resolution of the holders of the New ZDP Shares passed at a separate general meeting of such holders convened and held in accordance with the provisions of the REO Securities Articles:
- (a) other than pursuant to the issue of any REO Ordinary Shares upon conversion of the CULS issue, and shall, so far as it is able, procure that no other member of the Group shall issue (other than to the Company or any directly or indirectly wholly owned subsidiary thereof), further shares or securities, or rights to subscribe for or to convert or exchange any securities into shares or securities or reclassify any shares (otherwise, in each case, than in connection with an allotment of REO Ordinary Shares pursuant to Article 125 of the Articles of the Company (such connection to be determined conclusively by the Board of REO)) save that there may be issued at any time shares, securities or rights to subscribe for or to convert or exchange into shares, and shares may be reclassified as such other shares, provided that in any event the Cover Test (as defined below) is satisfied;
 - (b) pass a resolution amending the Article summarised under “Duration” below or releasing the directors of REO Securities from their obligation to convene an extraordinary general meeting at which a resolution will be proposed requiring REO Securities to be wound up voluntarily;
 - (c) pass, and shall, so far as it is able, procure that no other member of the Group shall pass, a resolution to reduce the capital of REO Securities or any member of the Group, in any manner, including any resolution authorising the directors of the relevant company to purchase shares in such company save that any such relevant company may without such sanction take authority to make, and effect, purchases of its own shares provided that, in any event, the Cover Test would be met immediately following any such purchase;
 - (d) pass, and shall so far as it is able, procure that no other member of the REO Group (being the Company and REO Securities) shall pass, a resolution for the voluntary winding up of any member of the REO Group where such winding-up would take effect prior to 31 May 2011;
 - (e) permit REO Securities or any other member of the Group either to increase the aggregate principal amount of monies borrowed (as such was defined in the articles of association of the Company as at 1 April 2007) by REO Securities or any other member of the Group (excluding monies borrowed by any one of such companies from any other of them but including monies borrowed from banks for temporary purposes only and in the ordinary course of business) such that the limits and restrictions stated in the articles of association of the Company in force on 1 April 2007 would be breached or amend such limits and restrictions;
 - (f) make, and so far as it is able, procure that no member of the Group shall make, any material change to the Group’s or any member of the REO Group’s investment policy which, at the time of making such change, appears likely in the reasonable opinion of the Directors of REO Securities to be materially prejudicial to the holders of the shares of any class without the prior sanction of an extraordinary resolution of the holders of the shares of that class so affected;
 - (g) pass, and shall, so far as it is able, procure that no other member of the REO Group shall pass, any resolution which authorises the directors of the relevant company to pay a dividend or other distribution out of the capital reserves of the relevant company, including any reserve arising as a consequence of a cancellation or reduction of share premium account, other

than a purchase of shares permitted under sub-paragraph (c) above PROVIDED ALWAYS THAT no such sanction shall be required in respect of declarations and payments of dividends by reference to any single annual period of up to (and including) 2.5 pence per ordinary share of 1 pence each in the capital of the Company, each annual period running from 1 January to 31 December (both dates inclusive); or

- (h) make any variation of the terms of the Undertaking Agreement which, at the time of being made, could reasonably be considered to be materially prejudicial to the interests of the holders of the New ZDP Shares.

For the purposes of this paragraph (3)(A), the “**Cover Test**” is that the auditors shall have reported to the directors of REO Securities that, in their opinion, were the further shares to be issued, the rights of subscription, conversion or exchange to be immediately issued and/or exercised or the reclassification or purchase of own shares to take place on the date specified by the directors of REO Securities for such calculation (the “**Calculation Date**”) those New ZDP Shares in issue immediately thereafter would have a Cover not less than the lower of (i) the cover on the New ZDP Shares had such Cover been calculated immediately prior to the Calculation Date (the “**Prior Cover**”) and (ii) 1.2 times. For this purpose, the cover on the New ZDP Shares shall represent a fraction where the numerator is equal to the aggregate net asset value of the issued shares of the Company on a consolidated basis at the end of the immediately preceding month (valued by the Group’s investment manager or such other person as the directors of REO Securities may nominate in accordance with the Company’s accounting policies and reported on by the auditors) and the denominator is equal to the aggregate amount which would be paid to the holders of the New ZDP Shares in issue on the Calculation Date as a class (and on all shares ranking as to capital in priority thereto or *pari passu* therewith) on a repayment of the New ZDP Shares on a winding-up of REO Securities in accordance with the REO Securities Articles on 31 May 2011. In calculating such Cover and Prior Cover, the directors of REO Securities shall:

- (i) use the figures set forth in the most recent management accounts of the Company and any other member of the Group;
 - (ii) (save where calculating Prior Cover) assume that the share capital or securities or rights proposed to be issued or the shares arising on reclassification or to be purchased had been issued, exercised, reclassified and/or purchased at the end of the month prior to the Calculation Date;
 - (iii) (save where calculating Prior Cover) adjust the aggregate net asset value of the issued shares of the Company on a consolidated basis at the end of the said month by adding the minimum net consideration (if any) which would be received upon such issue and/or exercise and by deducting any consideration payable on any such purchase;
 - (iv) (save where calculating Prior Cover) aggregate the capital entitlements of the existing New ZDP Shares and the capital entitlements of any new New ZDP Shares or reclassified shares or securities or rights;
 - (v) (save where calculating Prior Cover) aggregate the capital entitlements of the existing New ZDP Shares and the capital entitlements of any new New ZDP Shares (or any other shares ranking as to capital in priority thereto or *pari passu* therewith) to be issued or reclassified as aforesaid, in each case as at the Calculation Date; and
 - (vi) make such other adjustments as they consider appropriate.
- (B) notwithstanding paragraphs (1), (2) and (3)(A) above, if any offer is made (whether by REO Securities or any other person, including proposals for a reduction or cancellation of capital, capitalisation issue, share purchase or repurchase and/or redemption of shares of the relevant class or any shares issued in substitution therefor) to all the holders of New ZDP Shares (other than the

offeror and/or persons acting in concert with the offeror) which becomes or is declared unconditional in all respects (or would so become or be declared subject only to the passing of any Recommended Resolution (as defined below)) prior to 31 May 2011, and which enables the holders of New ZDP Shares to receive no later than 7 June 2011 an amount in cash not less than that to which the Directors estimate (so far as practicable at the time and on the basis of such assumptions as they may reasonably deem appropriate) that such New ZDP holder would otherwise have been entitled on a winding-up of REO Securities in accordance with the REO Securities Articles on 31 May 2011 (whether or not such offer is accepted in any particular case and ignoring any option to receive alternative consideration) and such offer is recommended by the directors of REO Securities and stated to be, in the opinion of a financial adviser appointed by the directors of REO Securities, fair and reasonable the provisions of paragraph (D) below shall apply to the holders of New ZDP Shares in relation to any resolution or resolutions (a “**Recommended Resolution**”) proposed at any general meeting of REO Securities or at any separate meeting of the holders of New ZDP Shares save that the provisions of paragraph (D) below shall cease as regards such shareholders if either the directors of REO Securities considers that the aforementioned offer is unlikely to be honoured or the offeror breaches a material term of the offer or otherwise manifests an intention not to implement the offer;

- (C) notwithstanding paragraphs (1), (2) and (3)(A) above, if at any time on or before 31 May 2011 a resolution (a “**Reconstruction Resolution**”) is proposed at any general meeting of REO Securities or at any separate meeting of any class(es) of shareholders (including the meeting to be convened to consider the winding-up of REO Securities) to sanction any form of arrangement for the transfer of all or part of REO Securities’ assets to another entity or any proposals for a reduction or cancellation of capital, capitalisation issue, share purchase or repurchase and/or redemption of any shares (including, without limitation, any further resolutions which the directors of REO Securities consider to be necessary or desirable for the purposes of effecting such proposals) and which enables the holders of the New ZDP Shares to receive, no later than 7 June 2011, an amount in cash not less than that to which the directors of REO Securities estimate (so far as practicable at the time and on the basis of such assumptions as they may reasonably deem appropriate) that such holders would otherwise have been entitled on a winding-up of REO Securities in accordance with the REO Securities Articles on 31 May 2011 then (ignoring any option to receive their entitlements otherwise than in cash) provided such arrangement or proposal is recommended by the directors of REO Securities and stated to be, in the opinion of a financial adviser appointed by the directors of REO Securities, fair and reasonable, the provisions of paragraph (D) below shall apply to the holders of the shares in relation to such resolution(s) save that such provisions shall cease as regards such shareholders if the arrangement is not implemented in accordance with its terms; and
- (D) where this paragraph (D) applies in respect of any resolution the New ZDP Shareholders shall not be entitled to vote at any general meeting of REO Securities and the previous sanction of an extraordinary resolution of the New ZDP Shareholders shall not be required in any case in which it would otherwise be required by the REO Securities Articles provided that where, notwithstanding the foregoing, such sanction is required in any case by law, all New ZDP Shareholders present in person, by representative (if a corporation) or by proxy and entitled to vote at such meeting shall (in respect of the votes attached to all such shares) vote in favour of the resolution or resolutions recommended by the Directors and where any vote is not cast or is cast against any such resolution or resolutions recommended by the Directors it shall be deemed to have been cast in favour. The vote on any Recommended Resolution or Reconstruction Resolution shall be taken on a poll.

(b) ***Dividends***

- (i) Subject to the rights of persons entitled to shares with special rights as to dividends and subject to the Law, REO Securities in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Directors.
- (ii) No dividend shall be paid other than out of profits.
- (iii) The Directors may, if they think fit, from time to time pay the members such interim dividends as appear to the Directors to be justified by the profits of REO Securities.
- (iv) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of REO Securities until claimed. No unclaimed dividend shall bear interest against REO Securities. Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to REO Securities.
- (v) The Directors may before recommending any dividend set aside out of the profits of REO Securities such sums as they think proper as a reserve or reserves, which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of REO Securities may be properly applied. The Directors may also carry forward any profits which they think prudent not to distribute.

(c) ***Issue of Shares***

- (i) Subject to the provisions of the REO Securities Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share in REO Securities may be issued with or have attached thereto such preferred, deferred or other special rights, or such restrictions whether in regard to dividend, return of capital, voting or otherwise as REO Securities may from time to time by ordinary resolution determine.
- (ii) Subject to the REO Securities Articles, the unissued shares shall be at the disposal of the Directors, and they may allot or otherwise dispose of them to such persons, at such times and generally on such terms and conditions as they think proper.
- (iii) REO Securities may on any issue of shares pay such brokerage as may be lawful.
- (iv) No person shall be recognised by REO Securities as holding any shares upon any trust.

(d) ***Notice requiring disclosure of interests in Shares***

The Directors may serve notice on any member requiring that member to disclose to REO Securities the identity of any person (other than the member) who has any interest in the shares held by the member and the nature of such interest. Any such notice shall require any information in response to such notice to be given in writing within such reasonable time as the Directors shall determine. The Directors may be required to exercise the aforementioned powers on the requisition of members holding not less than one-tenth of the paid up capital of REO Securities which carries the right of voting at general meetings of REO Securities. If any member is in default in supplying to REO Securities the information required by REO Securities within the prescribed period (which is 28 days after service of the notice or 14 days if the shares concerned represent 0.25 per cent. or more in nominal value of the issued shares of the relevant class), the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the shares in relation to which the default has occurred (the “default shares”) and any other shares held by the member, the member shall not be entitled to vote in general meetings or class meetings or to exercise any other right conferred by membership in relation to meetings or of the holder of any class of shares. Where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of the class of shares concerned, the direction notice may additionally direct that dividends on such Shares shall be retained by REO Securities (without interest), and that no transfer of the shares (other than a transfer approved under the REO Securities Articles) shall be registered until the default is rectified.

(e) ***Duration***

- (i) The Directors will convene an extraordinary general meeting of REO Securities to be held on 31 May 2011 or, if that is not a Business Day (as defined in the REO Securities Articles), on the

immediately following Business Day, at which a Special Resolution will be proposed pursuant to Article 146 of the Law requiring REO Securities to be wound up summarily unless the Directors shall have previously been released from their obligations to do so by a Special Resolution of REO Securities, such Special Resolution having been duly passed not earlier than 28 February 2011 (such Special Resolution having been sanctioned by any necessary class approval).

- (ii) At the extraordinary general meeting convened pursuant to paragraph (i) above those shareholders who (being individuals) are present in person or by proxy or (being corporations) by proxy or by a duly authorised representative and entitled to vote and who vote in favour of the resolution proposed to wind up REO Securities shall collectively have such total number of votes on a poll as is one more than the number of votes which are required to be cast on such poll for the said resolution to be carried, and upon such resolution being passed then REO Securities shall be wound up accordingly. Any vote taken at the extraordinary general meeting convened pursuant to paragraph (i) above shall be taken on a poll.

(f) ***Winding-up***

- (i) Subject to paragraph (a)(ii) above, if REO Securities shall be wound up, the surplus assets remaining after payment of all creditors shall be divided among the members in proportion to the capital which at the commencement of the winding-up is paid up on the shares held by them respectively, subject to the rights of any shares which may be issued with special rights or privileges.
- (ii) If the REO Securities shall be wound up, the liquidator may, with the authority of an ordinary resolution, divide among the members in specie the whole or any part of the assets of REO Securities, and may set such value as he deems fair upon any one or more class or classes of property, and may determine the method of division of assets between members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as he shall think fit but no member shall be compelled to accept any assets in respect of which there is a liability.
- (iii) Where REO Securities is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred to or sold to another company the liquidator may, with the sanction of an ordinary resolution, receive in compensation or part compensation shares, policies or other like interests in the transferee for distribution among the members of the Company or may enter into any other arrangement whereby the members may, in lieu of receiving cash, shares, policies or other like interests, participate in the profits of or receive any other benefit from the transferee.

(g) ***Variation of rights***

Whenever the capital of the Company is divided into different classes of share, the special rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of such shares. The necessary quorum shall be two persons at least holding or representing by proxy one-third in nominal amount of the issued shares of the class (but at any adjourned meeting of such holders where a quorum as defined above is not present those holders who are present in person or by proxy shall be a quorum).

One of the special rights attaching to the New ZDP Shares will be that the passing and implementation of any Recommended Resolution or Reconstruction Resolution in respect of such New ZDP Shares will be deemed to be in accordance with the rights and privileges attached to such New ZDP Shares, so that such a resolution may be passed and implemented without the holders of the New ZDP Shares being entitled to receive notice of or vote either on such resolution at the relevant extraordinary general meeting of such class or to sanction the same by an extraordinary resolution at any separate general meeting of such holders and so that neither the passing nor the implementation of any such resolution will be treated as varying, modifying or abrogating any such rights or privileges.

The special rights conferred upon the holders of shares or any shares or class of shares issued with preferred, deferred, or other special rights shall not be deemed to be varied by the exercise of any power

under the disclosure provisions requiring shareholders to disclose an interest in the shares as set out in the REO Securities Articles.

(h) *Transfer of shares*

The Directors may determine that shares be issued in certificated or uncertificated form. Where shares are held in certificated form, the following shall apply to the transfer of shares held in such form. The instrument of transfer of a share shall be in writing in any form which the Directors may approve and shall be signed by or on behalf of the transferor. The Directors may refuse to register any transfer of shares prohibited under the provisions referred to in paragraph (d) above and may decline to register a transfer unless the instrument of transfer is deposited at the registered office of REO Securities accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The Directors may decline to register any transfer of shares to a person where such transfer would be in breach of any law or requirement of any country or regulatory authority including where such transfer is to a US person which has, *inter alia*, the meaning given in Regulation S under the United States Securities Act of 1933, as amended.

REO Securities may permit the holding in uncertificated form of one or more classes of shares determined by the Directors for this purpose in order that the transfer of title of any such shares may be effected by means of a computer system in accordance with The Company (Uncertificated Securities) (Jersey) Order 1999 provided that the register of members shall be held in Jersey pursuant to the Law.

The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine provided that such suspension shall not be for more than 30 days in any year.

(i) *Alteration of capital and purchase of shares*

REO Securities may from time to time by special resolution alter its share capital, as stated in its memorandum and purchase its own shares, in any manner authorised by the Law.

(j) *Accounts*

Subject to the reduction of share capital provisions in the Law, the Directors shall have authority to determine that up to 100 per cent. of the expenses of REO Securities (including without prejudice to the generality of the foregoing any proportion of the expenses of management of the assets of REO Securities or of the finance costs of any borrowing of REO Securities) be charged to capital.

(k) *General Meeting*

- (i) REO Securities shall in each calendar year hold a general meeting as its annual general meeting in addition to any other meeting in that year. Annual general meetings shall be held at such time and place in the Island of Jersey as may be determined by the Directors. So long as REO Securities holds its first annual general meeting within eighteen months of REO Securities' incorporation it need not hold it in the year of incorporation or in the following year.
- (ii) All general meetings (other than annual general meeting) shall be called extraordinary general meetings and shall be held in the Island of Jersey.
- (iii) The Directors may call an extraordinary general meeting whenever they think fit. Extraordinary general meetings shall also be convened on a members' requisition in such manner as provided by the Law.

(l) *Directors*

- (i) Save as mentioned below, a Director may not vote in respect of any matter in which he has (together with any interest of any person connected with him) a material interest (other than by virtue of his interest, directly or indirectly, in shares or debentures or other securities of REO Securities).

- (ii) A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
 - (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person for the benefit of REO Securities or any of its subsidiaries;
 - (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of REO Securities or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or the giving of security;
 - (c) where REO Securities or any of its subsidiaries is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to or may participate;
 - (d) any proposal affecting any other body corporate in which he is interested, directly or indirectly, as an officer or shareholder or otherwise, provided that he, together with persons connected with him, does not to his knowledge hold an interest in one per cent. or more of any class of the equity share capital of any such body corporate (or of any third body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate;
 - (e) any arrangement for the benefit of employees of REO Securities or any of its subsidiaries under which he is not accorded as a Director privilege or advantage not generally accorded to the employees to whom the arrangement relates; or
 - (f) any matter connected with the purchase or maintenance for any Director of insurance against any liability.
- (iii) Any Director may act by himself or by his firm in a professional capacity for REO Securities, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (iv) Any Director may continue to be or become a director, managing director, manager or other officer or member of a company in which REO Securities is interested, and any such Director shall not be accountable to REO Securities for any remuneration or other benefits received by him in such capacity.
- (v) A majority of Directors shall not be resident in the United Kingdom or Ireland.
- (m) ***Remuneration of Directors***
 - (i) The Directors shall be remunerated for their services in such sum as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £50,000 per annum (or such higher limit as REO Securities in general meeting shall from time to time determine by ordinary resolution). The Directors shall also be entitled to be paid all expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the business of REO Securities.
 - (ii) A Director may hold any other office or place of profit under REO Securities (other than the office of auditor) in conjunction with his office of Director on such terms as to tenure of office and otherwise as the Directors may determine.
 - (iii) The Directors may from time to time appoint one or more of their body to the office of managing director or to any other office for such term and at such remuneration and upon such terms as they think fit.
 - (iv) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under REO Securities, or whereat the terms of appointment are arranged or any contract in which he is

interested is considered and he may vote on any such appointment or arrangement other than his own appointment or the terms thereof.

(n) ***Appointment and Retirement of Directors***

- (i) All Directors shall submit themselves for election by shareholders at the first opportunity after their appointment, and shall not remain in office for longer than three years since their last election or re-election without submitting themselves for re-election. At each annual general meeting, the Directors subject to retirement, shall retire from office. On retiring a Director who is re-elected or deemed to have been re-elected will continue in office without a break. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and any Director who has been, or who by the time of the next annual general meeting will have been, in office for three years. In so far as the number of Directors retiring as calculated above is less than one-third of the Directors or if their number is not three or a multiple of three the number nearest to but not exceeding one-third the Directors who have been the longest in office shall also retire. As between two or more Directors who have been in office an equal length of time, the Directors to retire shall in default of agreement between them be determined by lot. The length of time a Director has been in office shall be computed from the date of his last election or appointment when he has previously vacated office. A retiring director shall be eligible for reelection.
- (ii) REO Securities may from time to time by ordinary resolution appoint any person to be a Director and may by ordinary resolution remove any Director. The Directors may from time to time appoint one or more Directors but any Director so appointed shall retire at the next annual general meeting of REO Securities but shall then be eligible for election and any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

(o) ***Borrowing Powers***

- (i) REO Securities shall comply with the borrowing restrictions applicable to a listed property investment company and subject thereto the Directors shall restrict the borrowing of REO Securities so that at the time of any borrowing the aggregate amount remaining undischarged of all monies borrowed by REO Securities inclusive of any fixed or minimum premium payable on final repayment shall not, except with the consent of REO Securities in general meeting, exceed an amount equal to 200 per cent. of the Adjusted Total of Capital and Reserves of REO Securities (as defined in paragraph (ii) below).
- (ii) For the purposes of this paragraph “Adjusted Total of Capital and Reserves” means the aggregate of the amount paid up or credited as paid up on the issued share capital of all members of the Group and the amounts standing to the credit or debit of the Capital and Revenue reserves (including share premium account, capital redemption reserve fund, investment reserve and profit and loss account) of the Group, all as shown in the latest semi-annual balance sheet of REO Securities but adjusted as appropriate.
- (iii) The Directors shall exercise all and any powers of REO Securities to borrow money subject to and in accordance with the following limitations and conditions:
- (a) subject to any applicable requirement of law, interest may be charged against the income of REO Securities or against the capital or partly one and partly the other as the Directors may from time to time determine;
- (b) no such borrowing may be made from any connected person unless the terms of such borrowing are in line with those for the time being offered by the relevant lender to other similar borrowers for similar sums in the same currency and for the relevant term, but not otherwise, and in such a case the relevant lender shall not be liable to account for any profits or benefits made or derived from or in connection with such borrowing;
- (iv) Any person lending money to REO Securities shall be entitled to assume that the Directors are acting in accordance with the REO Securities Articles and shall not be concerned to enquire whether such provisions have in fact been complied with.

- (v) Any amounts guaranteed by REO Securities shall be counted as borrowing by REO Securities for the purposes of the limit on borrowing set out in paragraph (i) above but claims by members in their capacity as such and claims by holders of any loan stock issued by the Group and listed on a recognised stock exchange shall not be included in the expression “monies borrowed” and “borrowing” in the Articles.

5. Material Differences between the rights of the New ZDP Shares under the REO Securities Articles and the rights of the ZDP Shares under the Existing Articles

Ordinary Shareholders will remain as Shareholders in the Company, and under the Scheme, the ZDP Shareholders will exchange their ZDP Shares for New ZDP Shares issued by REO Securities. The ZDP Shareholders will no longer be Shareholders in the Company nor will they have class rights under the New Articles of the Company. The rights of the New ZDP Shares will therefore be prescribed under the REO Securities Articles (which are summarised above).

Under the terms of the Undertaking Agreement, *inter alia*, the Company has undertaken not to enter into any transaction which, if it were a transaction entered into by REO Securities, would require the previous sanction of an extraordinary resolution passed at a separate general meeting of the holders of New ZDP Shares in accordance with the REO Securities Articles or otherwise as required by law, without such previous sanction having first been obtained.

The rights of the New ZDP Shareholders to receive their final capital entitlement will be enforced against REO by REO Securities as a creditor (subordinated to other creditors of REO) under the Undertaking Agreement rather than by the ZDP Shareholders themselves under the Existing Articles, as is currently the case.

The New ZDP Shares have class rights in substantially similar form to the class rights of the existing ZDP Shares although as can be seen from the summary above, certain of those rights relate to the activities of the Group and/or the REO Group instead of just REO as is currently the case.

In addition a new class right has been added such that a separate class meeting and vote of the New ZDP Shareholders would be required in respect of any material change to the terms of the Undertaking Agreement.

6. Information on the Crest Settlement System

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The REO Securities Articles permit the holding of New ZDP Shares under the CREST system. REO Securities has applied for the New ZDP Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the New ZDP Shares following Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system and holders of New ZDP Shares who wish to receive and retain share certificates will be able to do so. ZDP Shareholders may, however, elect to receive New ZDP Shares in uncertificated form if they are a system-share owner (as defined in the CREST Regulations) in relation to CREST.

7. Consent

Landsbanki has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and the references to its name in the form and context in which they appear.

8. Costs

The costs of implementing the Proposals are expected to be approximately £795,000 and will be borne by the Company.

9. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Stephenson Harwood, One, St. Paul's Churchyard, London, EC4M 8SH and at the registered office of REO during normal business hours on any business day from the date of this document until the Scheme becomes effective or lapses and will also be available for inspection at the Extraordinary General Meeting, the Class Meeting and the Court Meeting:

- (a) the memorandum of association of REO and the Existing Articles;
- (b) a draft of the proposed new Memorandum and New Articles;
- (c) the Memorandum and Articles of Association of REO Securities;
- (d) the Undertaking Agreement and the agreement referred to at paragraph 5(a) of Part 3 of this document;
- (e) the consent letter referred to in paragraph 7 above;
- (f) the audited consolidated financial statements of REO for the year ended 31 December 2006 and the unaudited interim report for the six months ended 30 June 2007;
- (g) the Prospectus;
- (h) the Circular to CULS Holders dated 18 December 2007; and
- (i) a copy of this Circular.

PART 5

SCHEME OF ARRANGEMENT

IN THE ROYAL COURT OF JERSEY

No. PL2007/135

IN THE MATTER OF REAL ESTATE OPPORTUNITIES LIMITED

and

IN THE MATTER OF PART 18A OF THE COMPANIES (JERSEY) LAW 1991, AS AMENDED

SCHEME OF ARRANGEMENT

(under Article 125 Companies (Jersey) Law 1991, as amended)

between

REAL ESTATE OPPORTUNITIES LIMITED

and

**THE HOLDERS OF THE SCHEME SHARES
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless the context otherwise requires, the following expressions shall bear the following meanings:

<i>business day</i>	a day (excluding Saturday or Sunday) on which banks generally are open for business in the City of London for the transaction of normal banking business
<i>Clause</i>	a clause of this Scheme
<i>Court</i>	the Royal Court of Jersey
<i>Court Hearing</i>	the hearing by the Court of the application to sanction the Scheme and to confirm the reduction of share capital of REO pursuant to the Scheme under Article 61 of the Law
<i>Court Meeting</i>	the meeting of the holders of ZDP Shares convened by order of the Court pursuant to Article 125 of the Law to consider and, if thought fit, approve this Scheme, and any adjournment thereof
<i>CREST</i>	the system for the paperless settlement of trades in listed securities operated by Euroclear
<i>Euroclear</i>	Euroclear UK & Ireland Limited
<i>CREST Regulations</i>	the Uncertificated Securities Regulations 2001 and the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended
<i>Effective Date</i>	the date on which this Scheme becomes effective in accordance with Clause 7
<i>Law</i>	the Companies (Jersey) Law 1991, as amended

<i>New ZDP Shares</i>	zero dividend preference shares of 0.001 pence each in the capital of REO Securities to be issued credited as fully paid pursuant to the Scheme
<i>pence or £</i>	the lawful currency of the United Kingdom
<i>REO</i>	Real Estate Opportunities Limited a company incorporated and registered with limited liability in Jersey as a public company with registered number 79679
<i>REO Securities</i>	REO Securities Limited, a company incorporated and registered with limited liability in Jersey as a public company with registered number 97292
<i>Scheme or Scheme of Arrangement</i>	this scheme of arrangement proposed to be made under Article 125 of the Law with or subject to any modification, addition or condition approved or imposed by the Court
<i>Scheme Record Time</i>	6.00 p.m. (London time) on the later of 14 February 2008 and the business day immediately preceding the Effective Date
<i>Scheme Share Owner</i>	a holder of Scheme Shares as appearing in the register of members of REO at the Scheme Record Time
<i>Scheme Shares</i>	all the ZDP Shares in issue at the Scheme Record Time
<i>share owner</i>	a registered holder of ZDP Shares or New ZDP Shares (as the case may be) and includes any person(s) entitled by transmission
<i>uncertificated or in uncertificated form</i>	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
<i>Undertaking Agreement</i>	the undertaking agreement between REO and REO Securities dated 17 December 2007
<i>United Kingdom or UK</i>	the United Kingdom of Great Britain and Northern Ireland
<i>ZDP Shares</i>	zero dividend preference shares of 1p each in the capital of REO

- (B) The authorised share capital of REO at the date of this Scheme is £9,000,000. The authorised share capital is divided into 600,000,000 ordinary shares of 1 pence each (of which 333,791,487 are in issue) and 300,000,000 ZDP Shares (of which 57,755,782 are in issue). All of the issued shares are fully paid.
- (C) REO Securities was incorporated and registered with limited liability in Jersey as a public company on 27 April 2007, with registered number 97292.
- (D) The authorised share capital of REO Securities at the date of this Scheme is £1,600 divided into 60,000,000 New ZDP Shares of 0.001 pence each and 1,000 ordinary shares of £1 each. Two ordinary shares have been issued to REO and are fully paid. All other shares are unissued. The New ZDPs will be issued fully paid by means of a capital contribution to be made by REO to REO Securities of £577.56.

- (E) Under the terms of the Undertaking Agreement, REO has undertaken to REO Securities to contribute (by way of gift, capital contribution or otherwise) such amount as would be necessary to ensure that REO Securities has sufficient assets on 31 May 2011 (being the fixed date for the repayment of the New ZDP Shares) or any earlier winding up of REO Securities, to satisfy the final capital entitlement of the New ZDP Shares under the articles of association of REO Securities. The Undertaking Agreement provides that in the event of a winding up of REO, REO Securities's rights under the undertaking are subordinated to the claims of the creditors of REO. REO has resolved by resolution of its board of directors not to terminate or agree any material change to the Undertaking Agreement.
- (F) REO Securities has agreed to appear by its advocate at the Court Hearing to consent to the Scheme and to undertake to be bound thereby and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to the Scheme. REO Securities has also resolved by resolution of its board of directors not to terminate or agree any material change to the Undertaking Agreement.

THE SCHEME

1. Cancellation of Scheme Shares

The issued share capital of REO shall be reduced by cancelling and extinguishing the Scheme Shares.

2. Consideration for the cancellation of the Scheme Shares

In return for the cancellation of the Scheme Shares on the Effective Date (a) REO will make the capital contribution referred to Recital (D) and (b) there shall be allotted and issued, credited as fully paid, to the Scheme Share Owners New ZDP Shares on the basis of one New ZDP share for each Scheme Share held at the Scheme Record Time. This is subject to the following provisions of this Scheme.

3. Allotment and issue of New ZDP Shares

- (a) The New ZDP Shares to be issued pursuant to Clause 2 shall rank *pari passu* as a single class of shares *inter se*.
- (b) The provisions of Clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Share Owner who is a citizen, resident or national of any jurisdiction outside the United Kingdom or Jersey (**overseas share owner**), REO Securities is advised that the allotment and issue of New ZDP Shares pursuant to Clause 2 would infringe the laws of any jurisdiction outside the United Kingdom or Jersey or would require REO Securities to observe any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of REO Securities, it would be unable to comply or which it regards as unduly onerous, then REO Securities may in its sole discretion either:
- (i) determine that no such New ZDP Shares shall be allotted and issued to such share owner under Clause 2 but instead such shares shall be allotted and issued to a nominee appointed by REO Securities as trustee for such share owner, on terms that they shall, as soon as practicable following the Scheme Record Time, be sold on behalf of such share owner at the best price which can reasonably be obtained and the net proceeds of such sale shall (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) be paid to such share owner by sending a cheque or warrant to such share owner in accordance with the provisions of Clause 4. In the absence of bad faith or wilful default, none of REO, REO Securities or any broker or agent of either of them shall have any liability for any loss arising as a result of the timing or terms of any such sale; or
 - (ii) determine that such New ZDP Shares shall be sold, in which event the New ZDP Shares shall be issued to such share owner and REO Securities shall appoint a person to act pursuant to this Clause 3(b)(ii) and such person shall be authorised on behalf of such share owner to procure that any shares in respect of which REO Securities has made such a determination

shall, as soon as practicable following the Scheme Record Time, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) shall be paid to such share owner by sending a cheque or warrant to such share owner in accordance with the provisions of Clause 4. To give effect to any such sale, the person so appointed shall be authorised on behalf of such share owner to execute and deliver a form of transfer and to give such instructions and do all such things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of REO, REO Securities or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.

4. Certificates and payments

- (a) Not later than five business days after the Effective Date, REO Securities shall allot and issue all New ZDP Shares which it is required to allot and issue to give effect to this Scheme.
- (b) As soon as reasonably practicable after the Effective Date, and not less than 15 days after the Effective Date, REO Securities shall send by post to the allottees of the New ZDP Shares certificates in respect of such shares, pursuant to Clause 2, save that where Scheme Shares are held in uncertificated form, REO Securities will procure that Euroclear is instructed to cancel the entitlement to Scheme Shares of each of the Scheme Share Owners concerned and to credit to the appropriate stock account in CREST of each such Scheme Share Owner the due entitlement to New ZDP Shares.
- (c) Not later than 15 days following the sale of any relevant New ZDP Shares pursuant to Clause 3(b), REO Securities shall procure that the nominee referred to in Clause 3(b)(i) or such person appointed to act under Clause 3(b)(ii) shall account for the cash payable by despatching to the persons respectively entitled thereto cheques and/or warrants by post.
- (d) All certificates required to be sent by REO Securities pursuant to Clause 4(b) and all cheques or warrants required to be sent pursuant to Clause 4(c) shall be sent through the post in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses appearing in the register of members of REO at the Scheme Record Time (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of REO before the Scheme Record Time.
- (e) If New ZDP Shares are consolidated or subdivided or if the nominal value of New ZDP Shares is reduced before the despatch of any certificates or the giving of any instructions in accordance with this Clause 4, the certificates or instructions shall relate to such New ZDP Shares as so consolidated, subdivided and/or reduced.
- (f) None of REO, REO Securities, any nominee referred to in Clause 3(b)(i), such person appointed to act under Clause 3(b)(ii) or any agent of any of them shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with this Clause 4.
- (g) All cheques shall be made payable to the share owner(s) in respect of the Scheme Shares concerned in sterling drawn on a UK clearing bank and the encashment of any such cheque shall be a complete discharge to REO Securities for the monies represented thereby.
- (h) This Clause 4 shall be subject to any prohibition or condition imposed by law.

5. Certificates representing Scheme Shares

With effect from and including the Effective Date, all certificates representing holdings of Scheme Shares shall cease to be valid in respect of such holdings. The share owners in respect of such shares shall be bound at the request of REO to deliver such certificates for cancellation to REO or to any person appointed by REO to receive the same, unless such certificates have already been destroyed.

6. Mandates and other instructions

Each mandate (if any) in force at the Scheme Record Time relating to the Scheme Shares and each instruction then in force as to notices and other communications from REO shall, unless and until varied or revoked, be deemed as from the Effective Date to be a valid and effective mandate or instruction to REO Securities in relation to the corresponding New ZDP Shares to be allotted and issued pursuant to this Scheme.

7. Effective Date

- (a) This Scheme shall become effective as soon as the Act of the Court sanctioning this Scheme under Article 125 of the Law shall have been duly delivered to the Jersey Registrar of Companies for registration and the Act of the Court and the minute confirming under Part 12 of the Law the reduction of capital provided for by this Scheme is registered by the Jersey Registrar of Companies.
- (b) Unless this Scheme shall have become effective on or before 30 June 2008 or such later date, if any, as REO and REO Securities may agree and the Court may allow, it shall lapse.

8. Modification

REO and REO Securities may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

9. Expenses of the Scheme

The whole of the costs and expenses incurred in relation to the negotiation, preparation and implementation of the Scheme shall be borne by REO.

Dated: 18 December 2007

PART 6

DEFINITIONS

The following definitions apply throughout this document (except in those parts of this document containing the Scheme, the Notice of Extraordinary General Meeting, the Notice of ZDP Class Meeting, the Notice of Ordinary Class Meeting and the Notice of Court Meeting, which contain separate definitions) unless the context requires otherwise:

Admission	admission of the New ZDP Shares to the Official List and to trading on the market for listed securities of the London Stock Exchange and “Admission becoming effective” means it becoming effective in accordance with paragraph 3.2.7 of the Listing Rules and the Admission and Disclosure Standards published by the London Stock Exchange
the Board or the Directors	the directors of REO, whose names are set out in paragraph 2 of Part 3 of this document
business day	a day (excluding Saturday or Sunday) on which banks generally are open for business in the City of London for the transaction of normal banking business
Court	the Royal Court of Jersey
Court Hearing	the hearing by the Court of the petition to sanction the Scheme and to confirm the reduction of share premium account of REO under Articles 125 and 61 respectively of the Law
Court Meeting	the meeting, notice of which is set out in Part 7 of this document, of the ZDP Shareholders convened by order of the Court pursuant to Article 125 of the Law for 18 January 2008 at 11.15 a.m. to consider and, if thought fit, approve the Scheme, and any adjournment of it
Class Meetings	the ZDP Class Meeting and the Ordinary Class Meeting
CREST	the system for the paperless settlement of trades in listed securities operated by Euroclear
Euroclear	Euroclear UK & Ireland
CREST Regulations	the Uncertificated Securities Regulations 2001, as amended and the Companies (Uncertificated Securities) (Jersey) Order 1999
CULS	7.5 per cent. convertible unsecured loan stock 2011 of the Company
CULS Holders	holders of CULS
CULS Holders Meeting	the meeting of CULS Holders convened for 18 January 2008 and any adjournment thereof
Effective Date	the date on which the Scheme becomes effective in accordance with Clause 7 of the Scheme, expected to be 15 February 2008

Existing Articles or Articles	the articles of association of REO as at the date of this document
Extraordinary General Meeting or EGM	the extraordinary general meeting of REO convened for 18 January 2008 at 11.45 a.m., notice of which is set out at the end of this document, and any adjournment of it
Group	before the Effective Date, REO and its subsidiaries and, after the Effective Date, REO and its subsidiaries including REO Securities
in certificated form	in relation to a share or other security, a share or other security which is not in uncertificated form
ISA	individual savings accounts
Landsbanki	Landsbanki Securities (UK) Limited, incorporated in England and authorised and regulated in the United Kingdom by the Financial Services Authority
Listing Rules	the listing rules of the UK Listing Authority
London Stock Exchange	London Stock Exchange plc
Law	The Companies (Jersey) Law 1991, as amended
Loan Notes	the unlisted £100,000,000 6.324 per cent. Series A and £50,000,000 6.324 per cent. Series B secured loan notes 2011 issued by the Company the terms of which are summarised in paragraph 6 of Part V of the Prospectus
Meetings	the Court Meeting, the ZDP Class Meeting, the Ordinary Class Meeting and the EGM
New Articles	the draft articles of association of REO, which will be adopted if the Scheme becomes effective
New ZDP Shareholders	holders of New ZDP Shares
New ZDP Shares	the zero dividend preference shares of 0.001 pence each in REO Securities to be allotted and issued pursuant to the Scheme
Official List	the Official List of the UK Listing Authority
Ordinary Class Meeting	the class meeting of the Ordinary Shareholders convened by the notice set out at the end of this document and any adjournment thereof
Ordinary Shares	the ordinary shares of 1 pence in the capital of REO
Ordinary Shareholders	holders of Ordinary Shares
pence or £	the lawful currency of the United Kingdom
PEP	personal equity plan
Proposals	collectively the Scheme and the proposals to adopt the New Articles and to reduce the share premium account of REO as described in this document

Prospectus	the prospectus dated 18 December 2008 relating to REO Securities and the New ZDP Shares, prepared in accordance with the Prospectus Rules
Prospectus Rules	the prospectus rules of the UK Listing Authority made under section 73A of the Financial Services and Markets Act 2000
Registrars	the Company's registrars, Capita Registrars (Jersey) Limited
Regulatory Information Service	a service provided by the London Stock Exchange for the distribution to the public of announcements and included within the list maintained at the London Stock Exchange's website
REO or the Company	Real Estate Opportunities Limited, a company incorporated in Jersey with registered number 79679
REO Group	REO and REO Securities
REO Securities	REO Securities Limited, a company incorporated in Jersey with registered number 97292
REO Securities Articles	the articles of association of REO Securities
Scheme	the scheme of arrangement to cancel the ZDP Shares and to issue in exchange New ZDP Shares in REO Securities in its present form as set out in Part 5 of this document or with or subject to any modification, addition or condition approved or imposed by the Court
Scheme Record Time	6.00 p.m. (London time) on the later of 14 February 2008 and the business day immediately preceding the Effective Date
Scheme Share Owner	a holder of Scheme Shares as appearing in the register of members of REO at the Scheme Record Time
Scheme Shares	means all the ZDP Shares in issue at the date of the Scheme Record Time
Shareholder	a registered holder of ZDP Shares or New ZDP Shares or Ordinary Shares, as the context requires, including person(s) entitled by transmission
Treasury Holdings	Treasury Holdings, an unlimited company incorporated in Ireland with company number 198482
UK Listing Authority	the Financial Services Authority acting in its capacity as competent authority under the Financial Services and Markets Act 2000
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST

Undertaking Agreement	the undertaking agreement between the Company and REO Securities dated 17 December 2007, summarised in paragraph 8 of Part 3 of this document
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
ZDP Class Meeting	the class meeting of ZDP Shareholders convened by the notice set out at the end of this document and any adjournment thereof
ZDP Repayment Date	31 May 2011
ZDP Shareholders	holders of ZDP Shares
ZDP Shares	the zero dividend preference shares of 1 pence each in the capital of REO

PART 7

NOTICE OF COURT MEETING

IN THE ROYAL COURT OF JERSEY

No. PL2007/135

IN THE MATTER OF REAL ESTATE OPPORTUNITIES LIMITED

AND

IN THE MATTER OF PART 18A OF THE COMPANIES (JERSEY) LAW 1991, AS AMENDED

NOTICE IS HEREBY GIVEN that by an order dated the 13th day of December 2007 made in the above matters the Court has directed a meeting (the *Court Meeting*) to be convened of the holders (the *ZDP Shareholders*) of zero dividend preference shares of 1 pence each in the capital of Real Estate Opportunities Limited (the *Company*) for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement hereinafter mentioned) and that such meeting will be held at Whiteley Chambers, Don Street, St. Helier, Jersey on 18 January 2008 at 11.15 a.m., at which place and time all holders of the said shares are requested to attend.

A copy of the Scheme of Arrangement and the Explanatory Statement required to be furnished pursuant to Article 126 of the Companies (Jersey) Law 1991, as amended are incorporated in the document of which this Notice forms a part.

ZDP Shareholders may vote in person at the Court Meeting or they may appoint another person or persons, whether a member of the Company or not, as their proxy (or proxies) to attend and vote in their stead.

A white form of proxy for use at the Court Meeting is enclosed herewith.

It is requested that forms of proxy be lodged by post or by hand during normal business hours with Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 11.15 a.m. on 16 January 2008 or, in the event that the Court Meeting is adjourned, 48 hours before the time fixed for any adjourned meeting but if forms are not so lodged, they may be handed to the chairman of the Court Meeting at the start of the Court Meeting.

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names appear in the register of members of the Company in respect of the joint holding.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, specifies that only those ZDP Shareholders registered in the register of members of the Company as at 6.00 p.m. (London time) on 16 January 2008 or, in the event that the Court Meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote in respect of the number of ZDP Shares registered in their name at the relevant time. Changes to entries in the relevant register of members after 6.00 p.m. (London time) on 16 January 2008 or, in the event that the Court Meeting is adjourned, less than 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the Court Meeting.

By the said order, the Court has appointed Martin Willaume Richardson or, failing him, Keith Anthony Jenkins to act as chairman of the Court Meeting and has directed the chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Dated 18 December 2007

PART 8

NOTICES OF CLASS MEETINGS AND EGM

REAL ESTATE OPPORTUNITIES LIMITED

(Registered in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 79679)

**NOTICE OF CLASS MEETING OF ZERO DIVIDEND
PREFERENCE SHAREHOLDERS**

Notice is hereby given that a separate class meeting of the holders of zero dividend preference shares of 1 pence each (“**ZDP Shares**”) in Real Estate Opportunities Limited (the “**Company**”) will be held at Whiteley Chambers, Don Street, St. Helier, Jersey on 18 January 2008 at 11.25 a.m. (or as soon thereafter as the Court Meeting of holders of ZDP Shares convened for the same place and date shall have been concluded or adjourned and if a quorum is not present within 30 minutes of the time appointed for this meeting, this meeting will stand adjourned to 12.30 p.m. on 18 January 2008 at the same place, at which time those ZDP Shareholders present in person or by proxy shall constitute a quorum) to consider and, if thought fit, pass the following resolutions which will be proposed as extraordinary resolutions:

EXTRAORDINARY RESOLUTION

1. **THAT** the holders of ZDP Shares hereby sanction and consent to:
 - (a) the passing and carrying into effect, as a special resolution of the Company of special resolution number 1 contained in the notice of extraordinary general meeting of the Company dated 18 December 2007;
 - (b) the implementation of the Scheme (as defined in the circular to shareholders of the Company dated 18 December 2007) in its original form or with or subject to any modification, addition or condition approved or imposed by the Court; and
 - (c) any variation or abrogation and/or deemed variation or abrogation of the rights attached to the ZDP Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph (a) of this resolution and/or the implementation of the Scheme.

EXTRAORDINARY RESOLUTION

2. **THAT** the holders of ZDP Shares hereby sanction and consent to:
 - (a) the passing and carrying into effect, as a special resolution of the Company of special resolution number 2 contained in the notice of extraordinary general meeting of the Company dated 18 December 2007; and
 - (b) any variation or abrogation and/or deemed variation or abrogation of the rights attached to the ZDP Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph (a) of this resolution.

By Order of the Board
Ogier Fund Administration (Jersey) Limited
Secretary

18 December 2007

Registered Office:
Whiteley Chambers
Don Street
St. Helier
Jersey
JE4 9WG

Notes:

1. A ZDP Shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a ZDP Shareholder of the Company.
2. A pink form of proxy is enclosed for use by ZDP Shareholders. Completion and return of the form of proxy will not prevent a ZDP Shareholder from subsequently attending the ZDP Class Meeting and voting in person if he so wishes.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarily or in some other way approved by the Directors), must be deposited by post or by hand during normal business hours with Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time for holding the meeting or adjourned meeting.
4. The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 16 January 2008 shall be entitled to attend or vote at the Class Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 16 January 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

REAL ESTATE OPPORTUNITIES LIMITED

(Registered in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 79679)

NOTICE OF CLASS MEETING OF ORDINARY SHAREHOLDERS

Notice is hereby given that a separate class meeting of the holders of ordinary shares of 1 pence each (“**Ordinary Shares**”) in Real Estate Opportunities Limited (the “**Company**”) will be held at Whiteley Chambers, Don Street, St. Helier, Jersey on 18 January 2008 at 11.35 a.m. (or as soon thereafter as the class meeting of holders of zero dividend preference shares in the capital of the Company convened for the same place and date shall have been concluded or adjourned and if a quorum is not present within 30 minutes of the time appointed for this meeting, this meeting will stand adjourned to 12.40 p.m. on 18 January 2008 at the same place, at which time those Ordinary Shareholders present in person or by proxy shall constitute a quorum) to consider and, if thought fit, pass the following resolutions which will be proposed as extraordinary resolutions:

EXTRAORDINARY RESOLUTION

1. **THAT** the holders of Ordinary Shares hereby sanction and consent to:
 - (a) the passing and carrying into effect, as a special resolution of the Company of special resolution number 1 contained in the notice of extraordinary general meeting of the Company dated 18 December 2007;
 - (b) the implementation of the Scheme (as defined in the circular to shareholders of the Company dated 18 December 2007) in its original form or with or subject to any modification, addition or condition approved or imposed by the Court; and
 - (c) any variation or abrogation and/or deemed variation or abrogation of the rights attached to the Ordinary Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph (a) of this resolution and/or the implementation of the Scheme.

EXTRAORDINARY RESOLUTION

2. **THAT** the holders of Ordinary Shares hereby sanction and consent to:
 - (a) the passing and carrying into effect, as a special resolution of the Company of special resolution number 2 contained in the notice of extraordinary general meeting of the Company dated 18 December 2007; and
 - (b) any variation or abrogation and/or deemed variation or abrogation of the rights attached to the Ordinary Shares which will, or may, result from the passing and carrying into effect of the resolution referred to in sub-paragraph (a) of this resolution.

By Order of the Board
Ogier Fund Administration (Jersey) Limited
Secretary

18 December 2007

Registered Office:
Whiteley Chambers
Don Street
St. Helier
Jersey
JE4 9WG

Notes:

1. An Ordinary Shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be an Ordinary Shareholder of the Company.
2. A green form of proxy is enclosed for use by Ordinary Shareholders. Completion and return of the form of proxy will not prevent an Ordinary Shareholder from subsequently attending the Ordinary Class Meeting and voting in person if he so wishes.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarily or in some other way approved by the Directors), must be deposited by post or by hand during normal business hours with Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time for holding the meeting or adjourned meeting.
4. The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 16 January 2008 shall be entitled to attend or vote at the Class Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 16 January 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

REAL ESTATE OPPORTUNITIES LIMITED

(Registered in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 79679)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Real Estate Opportunities Limited (the “**Company**”) will be held at Whiteley Chambers, Don Street, St. Helier, Jersey on 18 January 2008 at 11.45 a.m. (or as soon thereafter as the class meeting of holders of ordinary shares of the Company convened for the same place and date shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as special resolutions:

SPECIAL RESOLUTION

- 1 **THAT** subject to (i) the passing at separate general meetings of holders of zero dividend preference shares and ordinary shares of the Company convened for 18 January 2008 (or any adjournments thereof) (the “**Class Meetings**”) of extraordinary resolution number 1 contained in the notice of both Class Meetings respectively and (ii) the passing at a separate meeting of the holders of the 7.5 per cent. convertible unsecured loan stock 2011 of the Company convened for 18 January 2008 (or any adjournment thereof) (the “**CULS Holders Meeting**”) of the extraordinary resolution contained in the notice of the CULS Holders Meeting dated 18 December 2007 (or any adjournment thereof):
 - (A) the Scheme of Arrangement dated 18 December 2007 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court (the “**Scheme**”) proposed to be made between the Company and the Scheme Share Owners (as defined in the Scheme) be approved and the Directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme into effect;
 - (B) for the purpose of giving effect to the Scheme the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
 - (C) conditional on the Scheme becoming effective, the draft regulations produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the Articles of Association of the Company in substitution for and the exclusion of the existing Articles of Association of the Company;
 - (D) conditional on the Scheme becoming effective, all of the remaining authorised but unissued zero dividend preference shares of 1 pence each in the capital of the Company be reclassified as ordinary shares of 1 pence each in the capital of the Company ranking *pari passu* with the existing issued ordinary shares of 1 pence each;
 - (E) the terms of the Undertaking Agreement dated 17 December 2007 between the Company and REO Securities Limited be and are hereby approved;
 - (F) conditional on the Scheme becoming effective, the ZDP Shares be de-listed from the Official List of the UK Listing Authority, the Official List of the Channel Islands Stock Exchange and the Official List of the Irish Stock Exchange; and
 - (G) conditional on the Scheme becoming effective, the memorandum of association of the Company be amended by the deletion of paragraph 2 and the substitution therefor of the words: “2. The share capital of the Company is £8,422,442.18 divided into 842,244,218 Ordinary Shares of 1p each.”

SPECIAL RESOLUTION

- 2 **THAT** subject to (i) the passing at the Class Meetings of extraordinary resolution number 2 contained in the notice of both Class Meetings respectively and (ii) the passing of special resolution number 1 set out in this notice of extraordinary general meeting and the Scheme becoming effective and (iii) the passing at the CULS Holders Meeting of the extraordinary resolution contained in the notice of the CULS Holders Meeting dated 18 December 2007 (or any adjournment thereof), the amount standing to the credit of the share premium account of the Company at the date of this resolution be and is hereby cancelled.

Registered office
Whiteley Chambers
Don Street
St. Helier
Jersey
JE4 9WG

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

18 December 2007

Notes:

1. Holders of Ordinary Shares in the Company are entitled to attend and vote on resolutions 1 and 2 and holders of ZDP Shares are entitled to attend and vote on resolution 1. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. A blue form of proxy is enclosed with this notice and instructions for completion are shown on the form.
2. To be valid, forms of proxy, together with any power or authority under which it is executed (or notarially certified copy of such power or authority) need to be deposited by post or by hand during normal business hours with Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the start of the Extraordinary General Meeting. Completion of a Form of Proxy does not preclude members attending and voting in person at the Extraordinary General Meeting, should they so wish.
3. The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 16 January 2008 shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 16 January 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. No director has a service contract with the Company.