



# Real Estate Opportunities

INTERIM RESULTS FOR THE 6 MONTHS  
TO 31 AUGUST 2011

## PLANNING PERMISSION GRANTED FOR BATTERSEA POWER STATION:

- Section 106 agreement completed and planning permission was issued on 23 August 2011, with backing from the Mayor of London and the Secretary of State for Communities and Local Government subsequent to the previous resolution to grant planning permission by the London Borough of Wandsworth
- Negotiations continue with a number of potential global investors expressing strong interest in committing to the project
- Battersea Power Station Shareholder Vehicle Limited ("BPSSV") continues to work closely with its lenders: Lloyds Banking Group, the National Asset Management Agency ("NAMA") and the holder of the Series A and Series B loan notes (the "OLNs")

## SUCCESSFUL COMPLETION OF BALANCE SHEET RESTRUCTURING:

- Formal agreement effected on 12 May 2011 with holders of the 7.5% Convertible Unsecured Loan Stock ("CULS") and the Zero Dividend Preference Shares ("ZDPs") whereby liabilities of approximately £246 million were converted into equity and warrants in BPSSV and equity in REO
- Draft NAMA term sheet received in respect of the Group's wholly owned Irish property assets on which NAMA is the sole lender, with both parties working towards its finalisation and in turn completion of binding facility agreements

## MARKET CONDITIONS REMAIN CHALLENGING:

- Total portfolio valuation at £991 million, down marginally by 1.3% since February 2011. Irish property values continue to be impacted by uncertainty surrounding the potential abolition of upward only rent reviews, with the Irish property portfolio declining by 6.6% in the period, excluding foreign exchange gains
- Battersea Power Station valuation increased from £498 million at 28 February 2011 to £500 million, due to the purchase of an adjoining site
- Property income of £17 million in the six months to 31 August 2011, consistent with the prior year comparative period
- Loss from operating activities of £72 million in the period compared to a loss of £2 million in the six months to 31 August 2010, due principally to increased valuation losses in the current period and because the prior year comparative period included a one time gain arising from the disposal of REO's interest in China Real Estate Opportunities plc
- Profit after tax of £121 million in the period, compared to loss after tax of £45 million for the prior year comparative period, due principally to an accounting profit of £227 million on equitisation of liabilities due to CULS and ZDPs as part of the balance sheet restructuring
- Profit per share of 36.3 pence, compared to loss per share of 13.6 pence for the prior year comparative period
- Cash balances at £18 million (includes cash equivalents and restricted cash), from £31 million at 28 February 2011, reduction due principally to a loan repayment from restricted cash and professional fees associated with the balance sheet restructuring

## OPERATIONAL PERFORMANCE REMAINS STRONG:

- Prime properties generating stable rental income secured by high-quality occupiers on long leases supports strong operational performance in challenging market:
  - Stable annualised rent roll of €40 million on Irish investment portfolio (28 February 2011: €40.1 million)
  - Occupancy levels unchanged from 28 February 2011 at 95%, arrears at only 3% (reduced from 4% at 28 February 2011)
  - Rent weighted average lease length of 12 years
- Continued market uncertainty surrounds potential Irish Government amendments to legislation in respect of upward only rent reviews

RAY HORNEY, CHAIRMAN, SAID: “The receipt of planning permission for Battersea Power Station and the successful completion of the balance sheet restructuring represent progressive steps towards securing the Group’s future. The Group’s primary focus is now on introducing a long-term investor into the Battersea Power Station project, with negotiations continuing with a shortlist of potential global investors. While the finalisation of binding legal terms with NAMA will secure the Group’s short term funding requirements, the current trading environment remains challenging and the Group will need to realise and/or refinance assets in order to discharge liabilities owed to various creditors. The Group remains committed to achieving these outcomes over the coming years.”

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IN THE PERIOD FROM 1ST MARCH 2011, THE GROUP HAS SECURED PLANNING PERMISSION FOR BATTERSEA POWER STATION AND SUCCESSFULLY IMPLEMENTED THE BALANCE SHEET RESTRUCTURING. IN ADDITION, NEGOTIATIONS ARE ONGOING WITH A NUMBER OF GLOBAL INVESTORS REGARDING A POTENTIAL INVESTMENT IN THE BATTERSEA POWER STATION PROJECT.

**Battersea Power Station**

Following previous announcements on the various stages of planning permission approval, final grant of planning permission as represented by the completion of the Section 106 agreement between the Group, London Borough of Wandsworth and Transport for London was secured on 23 August 2011.

The process of identifying and introducing a long-term investor is progressing with a number of potential global investors. It is anticipated that the subsequent capital

injection resulting from the successful completion of this process will facilitate the repayment and/or refinancing of certain liabilities associated with the project, together with the procurement of development finance.

Phase 1 of the development's construction is targeted to commence in 2012 with completion in 2016. The remaining phases and Central London's first ever privately funded extension to the tube network are scheduled for completion thereafter.

# BATTERSEA POWER STATION LONDON SW8 5BN





### Restructuring

As signalled in June's annual report, the Group's balance sheet restructuring, whereby liabilities of approximately £246 million due to the holders of both the Group's 7.5% Convertible Unsecured Loan Stock ("CULS") and the Zero Dividend Preference Shares ("ZDPs") would be converted into equity and warrants in Battersea Power Station Shareholder Vehicle Limited ("BPSSV") and equity in Real Estate Opportunities plc ("REO"), became effective on 12 May 2011.

As a result of the above, the listings of the CULS and ZDPs on the Official List (standard category in London) were cancelled on the above date and approximately 111 million additional Ordinary Shares in REO were admitted to the Official List (standard category in London).

### NAMA

As previously indicated, the initial evaluation of the Group's business plan by the National Asset Management Agency ("NAMA") resulted in the signing of a non-binding Memorandum of Understanding ("MOU") in December 2010. The Group has recently received a draft term sheet from NAMA, which contains conditions, including the consolidation and renewal of loan facilities and the provision of working capital, which are consistent with the MOU. Both parties are now working towards the finalisation of the term sheet and in turn of binding facility agreements in the near future.

### Property Portfolio & Business Activity

The Group's property portfolio was valued at £991 million as at 31 August 2011, a reported decrease of 1.3% from the valuation of £1,004 million at 28 February 2011. This reported decrease in the portfolio valuation is due to a revaluation adjustment of £83 million across the portfolio since 28 February 2011, after capitalised costs and acquisitions of £50 million, which has been somewhat offset by the fact that the Euro strengthened against Sterling in the period.

The Group's Irish portfolio declined on average by 6.6% in the period, primarily due to a negative revaluation adjustment, whilst the UK portfolio, which is primarily comprised of Battersea Power Station, increased by 0.3%.

Despite a challenging occupational market, the strong operational performance of the Group's investment portfolio continues to be underpinned by high occupancy rates (95%) and long leases (weighted average lease length of 12 years), with no material defaults to date.

REO continues to focus its attention on attracting high quality occupiers committed to long-term leases by ensuring that our investment portfolio comprises modern, flexible buildings that meet evolving occupier needs in locations and formats with strong appeal. This combination of prime office/retail locations and pro-active portfolio management has resulted in high quality, diversified tenants including Vodafone, Merrill Lynch, KPMG, Marks & Spencer, Bank of Ireland and Tullow Oil plc.

The Group continues to adopt a prudent approach towards its development pipeline timetable, with construction completed on only one development project during the period, being the partial fit-out of Number One Central Park as a result of letting space in the building to Tullow Oil plc. As previously reported, the Group completed the sale of Montevetro, Dublin's tallest commercial office building, to Google on 8 April 2011 for £85.2 million.

However, where appropriate, the Group continues to seek planning permissions within the current development portfolio as part of its long-term development strategy, as evidenced by the recent successful planning decision for a private hospital and rehabilitation facility in Sligo.

### Listings

As previously announced, the Company cancelled its listings of Ordinary Shares and CULS on the Official Lists of both the Irish Stock Exchange and the Channel Islands Stock Exchange on 16 March 2011. Following the successful completion of the balance sheet restructuring on 12 May 2011, the listings of the CULS and ZDPs on the Official List (standard category in London) were cancelled on that date and approximately 111 million additional Ordinary Shares in REO were admitted to the Official List (standard category in London).

### Outlook

Significant milestones have been achieved during the period such as the receipt of planning permission on the Battersea Power Station development and the successful completion of the balance sheet restructuring of the Group's debt. The Group's emphasis is now focussed on the introduction of a long-term investor into the Battersea Power Station project.

However, external factors such as continued concerns about the global and domestic Irish economies and uncertainty surrounding the Irish government's potential introduction of legislation in respect of upward only rent provisions in existing leases continue to adversely impact upon the Group's portfolio and performance.

Whilst acknowledging the significant progress made since 1 March 2011 in respect of the Battersea Power Station planning and the completion of the balance sheet restructuring, the Group still needs to repay and/or refinance significant financial liabilities to various creditors in the next few years and remains committed to achieving these outcomes.

### Ray Horney

Chairman  
25 October 2011

## INVESTMENT PORTFOLIO

The Group continues to maintain high occupancy levels (95%) across its investment portfolio, with a strong emphasis on rental income flows secured by high-quality occupiers with long leases on prime properties, resulting in an annualised rent roll of €40 million on the Irish investment portfolio and only 3% of rent roll in arrears. Rent weighted average lease length is approximately 12 years, with no material defaults to date. Property income in the six month period ended 31 August 2011 was approximately £17 million, which is consistent with the prior year comparative period.

REO's portfolio is well located and has consistently managed to attract and retain high quality occupiers such as Vodafone, Tullow Oil plc, Merrill Lynch, KPMG, Bank of Ireland and Marks & Spencer. Pro-active asset management, combined with a strong lease structure, has contributed to stable levels of income during continuing deflation in rental value.

## DEVELOPMENT PORTFOLIO

### BATTERSEA POWER STATION

As outlined in the Chairman's Statement, Section 106 agreement has now been completed between the Group, London Borough of Wandsworth and Transport for London thereby facilitating the commencement of construction of Phase 1 of the development in 2012, with completion in 2016.

This transformational scheme, which will be the largest ever undertaken in Central London, will act as a catalyst for the regeneration of the Nine Elms Opportunity Area and is expected to create approximately 15,000 new jobs and training opportunities for the area, whilst also including a new underground station

as part of the proposed Northern Line extension from Kennington to Nine Elms and Battersea.

## IRISH DEVELOPMENT PORTFOLIO

Progress within the Irish development portfolio in the period includes:

### CENTRAL PARK

As noted in the annual report, Tullow Oil plc, the FTSE 100 index listed, international oil and gas exploration company, has doubled its existing rental space in the above development to a total of 48,000 sqft in Number One Central Park in Leopardstown, Dublin, which is REO's prime suburban development, and home to a range of other blue chip clients including Vodafone, Ulster Bank (Royal Bank of Scotland), Volkswagen Bank, Lease Plan and Merrill Lynch.

Interior fit-out works as a result of the letting to Tullow Oil plc identified above commenced in March 2011 and completed in August 2011.

### MONTEVETRO

As previously noted, REO completed the sale of Montevetro, Dublin's tallest commercial office building, to Google, for a price of £85.2 million, which was satisfied in cash, in April 2011.

Ongoing constraints on development finance and current market demands have seen the Group continue to follow a prudent approach towards its development pipeline timetable, only pursuing appropriate planning permissions which correlate with its long-term development strategy, as evidenced by the recent successful planning decision for a private hospital and rehabilitation facility in Sligo.

## SUSTAINABILITY

Through its role as investment adviser and portfolio manager for REO, Treasury Holdings, which has been a carbon neutral company since 2007, promotes environmental protection and sustainability across all aspects of REO's property portfolio via the implementation and use of environmentally friendly materials and renewable energy initiatives.

Many REO developments, such as Montevetro and Central Park, have set high environmental standards and the provision of sustainable buildings, such as these, offer competitive advantages to corporate tenants through lower operating costs and better indoor environmental quality, thereby allowing tenants to demonstrate progress towards corporate environmental objectives.

The Battersea Power Station development will lead the way in delivering a highly sustainable development, through the creation of a mixed use community, new public transport provided by the Northern Line Extension and ground breaking environmental measures. The project includes a CCHP energy centre generating 30MW of electricity which, together with other efficiency measures, will enable the Power Station to become zero carbon and the rest of the development to be low carbon, saving approximately 65% of CO2 emissions across the entire site.

# NUMBER ONE, CENTRAL PARK DUBLIN 18

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# INVESTMENT ADVISER'S REPORT

## CONTINUED

		Valuation Feb '10 '000	Valuation Aug '11 '000	% Change
Irish Investment Properties	Euro	446,080	423,154	-5.1%
Irish Investment Properties under development	Euro	139,587	123,557	-11.4%
<b>Irish Properties</b>	<b>Euro</b>	<b>585,667</b>	<b>546,711</b>	<b>-6.6%</b>
<b>UK Properties</b>	<b>GBP</b>	<b>504,625</b>	<b>506,625</b>	<b>0.3%</b>

### VALUATIONS

The value of the portfolio as at 31 August 2011 amounted to £991 million, a reported decrease of 1.3% from the 28 February 2011 valuation of £1,004 million.

### VALUATION METHODOLOGY

Investment properties and investment properties under development are stated at fair value in accordance with GAAP at 31 August 2011. As previously indicated in the Group's October 2010 Interim Management Report, the Group has commissioned Treasury Holdings, in its capacity as Group Investment Adviser, to undertake these valuations for the interim period only. The primary source of evidence for property valuations should be recent, comparable market transactions on arm's length terms. However, the valuation of the Group's property portfolio is inherently subjective in the present market environment due to the continuing low level of comparable transactions.

**Irish Investment Properties:** The value of Irish investment properties has declined on average by 5.1% in the six months to 31 August 2011, as capital values continue to be adversely impacted by uncertainty surrounding the potential introduction of legislation in respect of upward only rent reviews and the wider Irish economy.

**Irish Development Properties:** The value of Irish properties under development, which are classified as sites in the course of development, has decreased on average by 11.4% in the six months to 31 August 2011. The ongoing financial crisis combined with the absence of debt finance continues to weigh negatively on market sentiment within the development sector.

**UK Properties:** The value of the UK property portfolio has increased by 0.3% in the six months to 31 August 2011, due to the purchase of the Esso site adjacent to Battersea Power Station.

Pending the introduction of a long-term investor, construction of Phase 1 of the development is scheduled to commence in 2012, with completion in 2016.

### FINANCIAL REVIEW

#### VALUATIONS & NET ASSET VALUE ("NAV")

As noted above, the value of the portfolio as at 31 August 2011 amounted to £991 million, a reported decrease of 1.3% since 28 February 2011.

The deficit on the consolidated shareholders' funds at 31 August 2011 has reduced to £684 million (28 February 2011: £801 million deficit), primarily as a result of the successful completion of the balance sheet restructuring in May 2011.

The consolidated net deficit of the Group under the EPRA guidelines was £617 million at 31 August 2011 (28 February 2011 EPRA net deficit: £718 million).

Diluted EPRA deficit per share was -138.5p as at 31 August 2011, representing a reduction in the deficit from -215.1p at 28 February 2011.

#### PROFIT & LOSS

Property income for the six months to 31 August 2011 remained stable at approximately £17 million, which is consistent with the prior year comparative period. After valuation losses and operating expenses, the reported operating loss was £72 million (six months ended 31 August 2010: £2 million loss). The increased operating loss in the period arose principally from an increase in valuation losses in the period of £43 million,

including approximately £20 million of debt restructuring costs which were capitalised and written off in the period, and a one time gain of £26 million relating to the disposal of REO's investment in China Real Estate Opportunities plc in the prior year comparative period.

Net financial expenses were £36 million in the period (six months ended 31 August 2010: £46 million). REO also reported an accounting profit of £227 million on the equitisation of liabilities due to the CULS and ZDPs as part of the balance sheet restructuring.

This has resulted in a REO profit after taxation for the period of £121 million (six months ended 31 August 2011: £45 million loss).

#### CASH

As at 31 August 2011, the Group had cash, cash equivalents and restricted cash of £18 million (28 February 2011: £31 million), the reduction due principally to a loan repayment from restricted cash and professional fees associated with the balance sheet restructuring.

#### DEBT & GEARING

As a result of the successful completion of the balance sheet restructuring in May 2011, overall debt level, which includes amounts due to the holder of the Series A and Series B loan notes (the "OLNs"), has reduced to £1,501 million at 31 August 2011 (£1,733 million at 28 February 2011). Bank loans amounting to £1,017 million have matured or will mature during the next twelve months.

The Group continues to work closely with other lenders, which exist outside NAMA's remit, to renew debt facilities where required.

# MONTEVETRO BARROW STREET DUBLIN 4

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### GOING CONCERN

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

At 31 August 2011, the Group's borrowings totalled £1.5 billion and in addition there were interest and finance accruals of £96.9 million. At that date, the Group had an investment and development portfolio which it valued at £991 million, together with cash and cash equivalents of £3.1 million, and restricted cash of £14.9 million. The deficit on shareholders' funds was £684 million. At 31 August 2011, the Group had aggregate bank loans of £1,017 million classified as current liabilities.

On 12 May 2011, the Group successfully completed a financial restructuring of liabilities due to the holders of its CULS, ZDPs and the OLN, which saw the equitisation of approximately £246 million of liabilities due to the CULS and ZDPs into equity and warrants in BPSSV and equity in REO, together with the deferral of all principal and interest payments due on the OLN until 31 August 2011 or such later date as might be subsequently agreed with the Battersea senior lenders (Lloyds Banking Group and NAMA) in respect of the expiry of their loan facilities, and the novation of those liabilities into BPSSV from REO.

The loan facilities relating to Battersea Power Station with both Lloyds Banking Group and NAMA, which were extended to 31 August 2011, can currently be called on demand. Regular discussions are ongoing with the senior lenders.

At 31 August 2011, the principal and interest due to the OLN was £174.2 million. Discussions are ongoing with the OLN.

Following the signing of the MOU with NAMA in December 2010, the Group recently received a draft term sheet from NAMA in respect of its wholly owned Irish property assets on which NAMA is the sole lender, the terms of which are consistent with those contained in the MOU. Both parties are working towards the finalisation of the term sheet in the near future.

The key assumptions made in preparing the Group's projected cashflow for the twelve months from approval of the financial statements include:

- The completion of binding facility agreements with NAMA based on the term sheet in the near future to address:
  - (a) the deferral of interest payments
  - (b) the renewal by NAMA of bank facilities on wholly owned Irish property assets, on which NAMA is the sole lender, in the amount of £475 million
  - (c) the provision by NAMA of working capital facilities
  - (d) the provision by NAMA of financial support to cover certain operating cash requirements.
- The renewal by NAMA of facilities on partially owned Irish property assets in the amount of £133 million, and of a facility, on which NAMA is the junior lender, in the amount of £76 million, on broadly similar terms to those contained in the MOU for these facilities.
- The renewal by non-NAMA banks of facilities on Irish property assets in the amount of £54 million on broadly similar terms.
- The continued support of the lenders on the Battersea Power Station development for the current investor process aimed at introducing a long-term investor on this project.

- Agreeing terms with a long-term investor on the Battersea Power Station development to provide project financing and to repay certain liabilities.

Based on the Group's current projected cashflows and the key assumptions noted above, the Board believes that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of this report.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure to achieve the above assumptions and objectives could cast significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

However, having discussed the assumptions and basis of preparation supporting the Group's cashflow projections, together with the advanced status of negotiations with the Group's key lenders, along with securing planning permission on Battersea Power Station, the financial restructuring of the Group's balance sheet, the receipt of a draft term sheet from NAMA and the progress made towards introducing a long-term investor on the Battersea Power Station development, the Directors of the Company have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

On this basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. No adjustment which would result from a change in the going concern basis of preparation has been included in the financial statements.

# ALTO VETRO BARROW STREET DUBLIN 4

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## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that face the business include the following:

### **ECONOMY**

Renewed turbulence in the global financial markets, together with the austerity measures that require implementation by the Irish government in order to comply with the assistance programme contained within the December 2010 EU/IMF Agreement, continue to have an adverse impact upon the Irish economy. Despite narrowing yields on Irish sovereign debt, the spending cuts and tax increases which require introduction as part of the above agreement may impact upon future economic growth in Ireland, the outlook for which remains subdued.

The Group's property portfolio is concentrated in Ireland thereby exposing the Group to the ongoing weakness of the Irish economy and its subsequent impact upon Ireland's property market. Factors such as weakened occupier demand, oversupply, and potential vacancies due to financial market rationalisation and uncertainty continue to pose a material risk to the Group's business, operational results and financial health.

### **LIQUIDITY**

The Group's reliance upon the ongoing support of NAMA and other lenders will continue until one or more of the following key initiatives have been concluded:

- execution of legally binding documentation with NAMA;
- further asset disposals from the Irish property portfolio, the timing of which will be subject to conditions in the Irish property market;

- introduction of a long-term investor into the Battersea Power Station development; and
  - further financial restructuring initiatives.
- The failure to successfully implement such initiatives and/or renew bank facilities expiring in the next twelve months would have material adverse consequences for the Group, thereby casting doubt on its ability to continue as a going concern.

### **FINANCIAL SECTOR – LENDERS & NAMA**

Development finance remains largely absent from the market due to the ongoing economic and banking concerns outlined above. Despite narrowing yields on sovereign debt, the ability of both the Irish government and the Irish banking system to borrow funds in the international money markets remains constrained.

Recent renewed turbulence in the global financial markets could significantly increase the cost of available funding or lead to serious difficulties in refinancing the Group's current debt levels. The Group could also be forced to sell further assets, which may not be under the best conditions, in order to meet payment obligations.

### **PROPERTY VALUATIONS & NAV**

The severe recession in the Irish economy has been accompanied by significant falls in the value of properties across the Irish market. Continuing inactivity in the Irish property market, the potential enactment of retrospective abolition of upward only rent reviews on existing leases and the ongoing absence of new financing facilities, has also led to difficulty in conducting realistic property valuations.

Ongoing volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets on a worldwide basis. Furthermore, the absence of liquidity in the financial markets means that it may be very difficult for the Group to achieve further property sales in the short-term.

Despite the successful completion of the balance sheet restructuring, further potential declines in the value of the Group's portfolio may result in a further reduction to shareholders' funds, which currently show a deficit of £684 million (28 February 2011: deficit of £801 million).

The consolidated net deficit of the Group under the EPRA guidelines is £617 million at 31 August 2011 (28 February 2011: net deficit of £718 million).

### **INTEREST RATES**

The Group uses interest rate swaps in order to manage its exposure to fixed and floating rates. Financing remains scarce and the renewed volatility in the global financial markets may result in lenders seeking increased margins, thereby increasing interest costs as an expense to the Group. Failure to meet margin calls under such interest swaps may preclude the Group from using this mechanism to manage its exposure to fluctuating interest rates.

## STATEMENT OF THE DIRECTORS

IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

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

(a) the condensed consolidated interim financial statements comprising the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 17 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

(b) the interim management report includes a fair review of the information required by:

- (i) *DTR 4.2.7R of the Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (ii) *DTR 4.2.8R of the Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

**Ray Horney**  
Chairman  
25 October 2011

# INDEPENDENT REVIEW REPORT

## TO REAL ESTATE OPPORTUNITIES PLC

### INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2011 which comprises the condensed consolidated statement of financial position, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cashflows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ("the TD Regulations") and the Disclosure and Transparency Rules of the UK's Financial Services Authority ("the FSA"). Our review has been undertaken so that we might state to the company those matters we are

required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Disclosure and Transparency Rules of the UK FSA. As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in this half yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

### OUR RESPONSIBILITY

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

### SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 August 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Disclosure and Transparency Rules of the UK FSA.

## EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on these financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 1(b) to the financial statements concerning the Group's ability to continue as a going concern.

As set out in that note there are a number of material uncertainties which could, were the underlying assumptions not to be achieved, cast significant doubt on the ability of the Group to continue as a going concern. These matters include the completion of the binding facility agreements with NAMA, addressing interest payments, renewal by NAMA of bank facilities, and the provision by NAMA of working capital facilities and financial support to cover certain operating cash requirements; renewal by non-NAMA banks of existing borrowings; the continued forbearance of the lenders on the Battersea Power Station development; and the introduction of an equity partner for the Battersea development.

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

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

The Group's principal assets comprise investment properties and investment properties under development, located in Ireland and the UK, which are being carried in the financial statements at market value. Given the materiality of these amounts and the inherent subjectivity in such valuations, we draw your attention to note 2 to the condensed financial statements, which highlights that these valuations have been carried out solely by the Directors using assumptions, and exercising certain judgements, based on market conditions as at 31 August 2011.

## Sean O'Keefe

Senior Statutory Auditor  
For and on behalf of KPMG  
Chartered Accountants  
Registered Auditor  
Dublin, Ireland  
25 October 2011

CONDENSED CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION  
AS AT 31 AUGUST 2011

In thousands of pounds sterling

	Note	31 August 2011 unaudited	28 February 2011 audited
<b>Assets</b>			
Investment properties	2	395,863	401,469
Investment properties under development	2	594,929	602,613
Trade and other receivables		5,535	5,460
Deferred tax assets	4b	1,118	764
Restricted cash		5,728	4,925
<b>Total non-current assets</b>		<b>1,003,173</b>	<b>1,015,231</b>
Trade and other receivables	6	9,701	68,565
Cash and cash equivalents		3,133	5,690
Restricted cash		9,131	20,874
<b>Total current assets</b>		<b>21,965</b>	<b>95,129</b>
<b>Total assets</b>		<b>1,025,138</b>	<b>1,110,360</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	5	336,583	324,253
Trade and other payables		904	889
Derivative financial instruments	5b	65,181	65,214
Deferred tax liabilities	4b	12,186	12,923
<b>Total non-current liabilities</b>		<b>414,854</b>	<b>403,279</b>
Interest-bearing loans and borrowings	5	1,164,320	1,409,105
Trade and other payables	7	125,839	93,841
Derivative financial instruments	5b	1,899	4,834
<b>Total current liabilities</b>		<b>1,292,058</b>	<b>1,507,780</b>
<b>Total liabilities</b>		<b>1,706,912</b>	<b>1,911,059</b>
<b>Net liabilities</b>		<b>(681,774)</b>	<b>(800,699)</b>
<b>Equity</b>			
Issued share capital	8a	4,453	3,340
Share premium	8b	1,441	216
Other reserves		1,480	1,480
Currency reserve		77,699	101,167
Retained losses		(768,660)	(906,902)
<b>Total deficit attributable to owners of the Company</b>		<b>(683,587)</b>	<b>(800,699)</b>
<b>Non controlling interest</b>	8c	<b>1,813</b>	-
<b>Total deficit</b>		<b>(681,774)</b>	<b>(800,699)</b>
<b>Net deficit per ordinary share</b>			
Basic (pence)	9	(153.5)	(239.7)
Diluted (pence)	9	(153.5)	(239.7)
Diluted EPRA (pence)	9	(138.5)	(215.1)

CONDENSED CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 AUGUST 2011

In thousands of pounds sterling

	Note	31 August 2011 unaudited	31 August 2010 unaudited
<b>Continuing operations</b>			
<b>Property income</b>	10	16,912	17,359
Other income		396	620
Valuation losses on investment properties and on investment properties under development	2	(82,535)	(39,427)
Profit on disposal of investment property		-	244
Profit on disposal of investment in CREO	3	-	26,233
Management fee		(912)	(1,102)
Administrative expenses	11	(5,690)	(5,522)
<b>Results from operating activities</b>		<b>(71,829)</b>	<b>(1,595)</b>
Gain on equitisation of CULS and ZDPs	14	226,958	-
Finance income		8,986	83
Finance expenses		(45,178)	(45,903)
<b>Net finance costs</b>	12	<b>(36,192)</b>	<b>(45,820)</b>
<b>Profit / (loss) before income tax</b>		118,937	(47,415)
Income tax credit	4	1,752	2,083
<b>Profit / (loss) for the period</b>		<b>120,689</b>	<b>(45,332)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences		(23,468)	37,769
<b>Other comprehensive (loss) / income, net of income tax</b>		<b>(23,468)</b>	<b>37,769</b>
<b>Total comprehensive income / (loss) for the period</b>		<b>97,221</b>	<b>(7,563)</b>
<b>Profit / (loss) attributable to:</b>			
Owners of the company		138,242	(45,332)
Non-controlling interest	8c	(17,553)	-
<b>Profit / (loss) for the period</b>		<b>120,689</b>	<b>(45,332)</b>
<b>Total comprehensive profit / (loss) attributable to:</b>			
Owners of the company		114,774	(7,563)
Non-controlling interest	8c	(17,553)	-
<b>Total comprehensive profit / (loss) for the period</b>		<b>97,221</b>	<b>(7,563)</b>
<b>Earnings / (loss) per ordinary share</b>			
Basic (pence)	13	36.3	(13.6)
Diluted (pence)	13	36.3	(13.6)

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS PERIOD ENDED 31 AUGUST 2011

unaudited (in thousands of pounds sterling)

Group	Share capital	Share premium	Other reserves	Currency reserve	Retained (losses)/ earnings	Total equity/ (deficit) reserves attributable to owners of the company	Non-controlling interest	Total
<b>Balance at 1 March 2011</b>	<b>3,340</b>	<b>216</b>	<b>1,480</b>	<b>101,167</b>	<b>(906,902)</b>	<b>(800,699)</b>	-	<b>(800,699)</b>

## Total comprehensive income

Non controlling interest arising in period (note 8(c))	-	-	-	-	-	-	19,366	19,366
Profit / (loss) for the period	-	-	-	-	138,242	138,242	(17,553)	120,689
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	(23,468)	-	(23,468)	-	(23,468)
Total other comprehensive income	-	-	-	(23,468)	-	(23,468)	-	(23,468)
Total comprehensive income	-	-	-	(23,468)	138,242	114,774	(17,553)	97,221

## Transactions with owners recorded directly in equity

### Contribution by and distribution to owners

Issue of ordinary shares (note 8)	1,113	1,225	-	-	-	2,338	-	2,338
Total transactions with owners	1,113	1,225	-	-	-	2,338	-	2,338
<b>Balance at 31 August 2011</b>	<b>4,453</b>	<b>1,441</b>	<b>1,480</b>	<b>77,699</b>	<b>(768,660)</b>	<b>(683,587)</b>	<b>1,813</b>	<b>(681,774)</b>

FOR THE YEAR ENDED 28 FEBRUARY 2011

audited (in thousand of pounds sterling)

Group	Share capital	Share premium	Other reserves	Currency reserve	Retained (losses)/ earnings	Total equity/ (deficit) reserves attributable to owners of the company	Non-controlling interest	Total
<b>Balance at 1 March 2010</b>	<b>3,338</b>	<b>12</b>	<b>1,480</b>	<b>77,075</b>	<b>(803,528)</b>	<b>(721,623)</b>	-	<b>(721,623)</b>
Reclassification	-	-	14,157	26,233	(40,390)	-	-	-
<b>Restated Balance</b>	<b>3,338</b>	<b>12</b>	<b>15,637</b>	<b>103,308</b>	<b>(843,918)</b>	<b>(721,623)</b>	-	<b>(721,623)</b>

## Total comprehensive income

Profit or loss	-	-	-	-	(45,332)	(45,332)	-	(45,332)
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	37,769	-	37,769	-	37,769
Share of reserve movement – associate	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	37,769	-	37,769	-	37,769
Total comprehensive income for the period	-	-	-	37,769	(45,332)	(7,563)	-	(7,563)
Reclassified to profit	-	-	(14,157)	(26,233)	14,157	(26,233)	-	(26,233)

## Transactions with owners recorded directly in equity

### Contribution by and distribution to owners

Conversion of loan stock	2	204	-	-	-	206	-	206
Total transactions with owners	2	204	-	-	-	206	-	206
<b>Balance at 31 August 2010</b>	<b>3,340</b>	<b>216</b>	<b>1,480</b>	<b>114,844</b>	<b>(875,093)</b>	<b>(755,213)</b>	-	<b>(755,213)</b>

CONDENSED CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 28 FEBRUARY 2011 CONTINUED

audited (in thousand of pounds sterling)

**Group**

	Share capital	Share premium	Other reserves	Currency reserve	Retained (losses)/ earnings	Total equity/ (deficit) reserves attributable to owners of the company	Non-controlling interest	Total
<b>Balance at 1 September 2010</b>	<b>3,340</b>	<b>216</b>	<b>1,480</b>	<b>114,844</b>	<b>(875,093)</b>	<b>(755,213)</b>	<b>-</b>	<b>(755,213)</b>
<b>Total comprehensive income</b>								
Profit or loss	-	-	-	-	(31,809)	(31,809)	-	(31,809)
<b>Other comprehensive income</b>								
Foreign currency translation differences	-	-	-	(13,677)	-	(13,677)	-	(13,677)
Realisation on transfer of associate to assets available for sale	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	(13,677)	-	(13,677)	-	(13,677)
Total comprehensive income	-	-	-	(13,677)	(31,809)	(45,486)	-	(45,486)
<b>Transactions with owners recorded directly in equity</b>								
<b>Contribution by and distribution to owners</b>								
transactions with owners	-	-	-	-	-	-	-	-
<b>Balance at 28 February 2011</b>	<b>3,340</b>	<b>216</b>	<b>1,480</b>	<b>101,167</b>	<b>(906,902)</b>	<b>(800,699)</b>	<b>-</b>	<b>(800,699)</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE SIX MONTHS ENDED 31 AUGUST 2011

In thousands of pounds sterling

	Note	<b>31 August 2011 unaudited</b>	<b>31 August 2010 unaudited</b>
<b>Operating activities</b>			
Profit / (loss) for the period		120,689	(45,332)
Net financial expense		36,192	45,820
Profit on disposal of investment in CREO		-	(26,233)
Profit on disposal of investment properties under development		-	(244)
Change in fair value of investment properties and investment properties under development		82,535	39,427
Gain on equitisation of CULS and ZDPs		(226,958)	-
Income tax credit		(1,752)	(2,083)
<b>Operating profit before changes in working capital</b>		<b>10,706</b>	<b>11,355</b>
(Increase) / decrease in trade and other receivables		(3,207)	1,165
Decrease in trade and other payables		(1,239)	(2,225)
<b>Changes in working capital</b>		<b>(4,446)</b>	<b>(1,060)</b>
Income tax (payment) / refund		(120)	145
<b>Net cash from operating activities</b>		<b>6,140</b>	<b>10,440</b>
<b>Investing activities</b>			
Addition to investment properties and investment properties under development		(6,708)	(28,531)
Proceeds from sale of listed investment		-	27,680
Proceeds from sale of investment properties under development (note 6)		64,878	3,113
Interest received		54	110
Movement in restricted cash		10,940	(2,391)
<b>Cash flows from investing activities</b>		<b>69,164</b>	<b>(19)</b>
<b>Financing activities</b>			
Repayment of bank borrowings (note 6)		(68,959)	(4,565)
Proceeds from bank borrowings		14,134	15,294
Payments on derivative financial instruments		(14,666)	(16,396)
Interest paid		(9,581)	(3,840)
<b>Cash flows from financing activities</b>		<b>(79,072)</b>	<b>(9,507)</b>
Net (decrease) / increase in cash and cash equivalents		(3,768)	914
Cash and cash equivalents at beginning of period		5,690	21,100
Effect of exchange rate fluctuations on cash held		1,211	(1,371)
<b>Cash and cash equivalents</b>		<b>3,133</b>	<b>20,643</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1A. BASIS OF PREPARATION

Real Estate Opportunities plc (the "Company") is a property company incorporated in Jersey.

The unaudited condensed consolidated interim financial statements of the Company as at and for the 6 months ended 31 August 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated statement of comprehensive income, the consolidated statement of cashflows and the consolidated statement of changes in equity have been prepared for the 6 months ended 31 August 2011 and the comparative period is the 6 months ending 31 August 2010. The statement of financial position has been prepared as at 31 August 2011 and the comparative is the audited statement of financial position as at 28 February 2011.

The Group's consolidated financial statements are presented in pounds sterling and rounded to the nearest thousand. They are prepared on the historical cost basis except for the following assets and liabilities which are stated at fair value: derivative financial instruments, investment properties and investment properties under development.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 28 February 2011.

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

### Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 28 February 2011.

The condensed consolidated interim financial statements were approved by the Board of Directors on 25 October 2011.

### Significant accounting policies

The accounting policies applied by the Group in these condensed interim financial statements are the same as those applied by the Group in its audited financial statements as at and for the year ended 28 February 2011. There are no new accounting policies that are applicable in the period.

## 1B. GOING CONCERN

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

At 31 August 2011, the Group's borrowings totalled £1.5 billion and in addition there were interest and finance accruals of £96.9 million. At that date, the Group had an investment and development portfolio which it valued at £991 million, together with cash and cash equivalents of £3.1 million, and restricted cash of £14.9 million. The deficit on shareholders' funds was £684 million. At 31 August 2011, the Group had aggregate bank loans of £1,017 million classified as current liabilities.

On 12 May 2011, the Group successfully completed a financial restructuring of liabilities due to the holders of its CULS, ZDPs and the OLN, which saw the equitisation of approximately £246 million of liabilities due to the CULS and ZDPs into equity and warrants in BPSSV and equity in REO, together with the deferral of all principal and interest payments due on the OLN until 31 August 2011 or such later date as might be subsequently agreed with the Battersea senior lenders (Lloyds Banking Group and NAMA) in respect of the expiry of their loan facilities, and the novation of those liabilities into BPSSV from REO.

The loan facilities relating to Battersea Power Station with both Lloyds Banking Group and NAMA, which were extended to 31 August 2011, can currently be called on demand. Regular discussions are ongoing with the senior lenders.

At 31 August 2011, the principal and interest due to the OLN was £174.2 million. Discussions are ongoing with the OLN.

Following the signing of the Memorandum of Understanding ("MOU") with NAMA in December 2010, the Group recently received a draft term sheet from NAMA in respect of its wholly owned Irish property assets on which NAMA is the sole lender, the terms of which are consistent with those contained in the MOU. Both parties are working towards the finalisation of the term sheet in the near future.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONTINUED

## 1B. GOING CONCERN (CONTINUED)

The key assumptions made in preparing the Group's projected cash flow for the twelve months from approval of the financial statements include:

- The completion of binding facility agreements with NAMA based on the term sheet in the near future to address:
  - (a) the deferral of interest payments
  - (b) the renewal by NAMA of bank facilities on wholly owned Irish property assets, on which NAMA is the sole lender, in the amount of £475 million
  - (c) the provision by NAMA of working capital facilities
  - (d) the provision by NAMA of financial support to cover certain operating cash requirements.
- The renewal by NAMA of facilities on partially owned Irish property assets in the amount of £133 million, and of a facility, on which NAMA is the junior lender, in the amount of £76 million, on broadly similar terms to those contained in the MOU for these facilities.
- The renewal by non-NAMA banks of facilities on Irish property assets in the amount of £54 million on broadly similar terms.
- The continued support of the lenders on the Battersea Power Station development for the current investor process aimed at introducing a long term investor on this project.
- Agreeing terms with a long-term investor on the Battersea Power Station development to provide project financing and to repay certain liabilities.

Based on the Group's current projected cashflows and the key assumptions noted above, the Board believes that the Group will have sufficient cash and cash equivalents to meet its liquidity requirements for at least twelve months from the date of approval of this report.

The Directors of the Company have concluded that the above factors represent material uncertainties. Failure to achieve the above assumptions and objectives could cast significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

However, having discussed the assumptions and basis of preparation supporting the Group's cash flow projections, together with the advanced status of negotiations with the Group's key lenders, along with securing planning permission on Battersea Power Station, the financial restructuring of the Group's balance sheet, the receipt of a term sheet from NAMA and the progress made towards introducing a long-term investor on the Battersea Power Station development, the Directors of the Company have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

On this basis, the Directors consider it appropriate to prepare the financial statements on a going concern basis. No adjustment which would result from a change in the going concern basis of preparation has been included in the financial statements.

## 1C. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 28 February 2011.

NOTES TO THE CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
CONTINUED

**2. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT**

In thousands of pounds sterling

	Unaudited		Total
	Investment Properties	Investment properties under development	
<b>Valuation at 1 March 2011</b>	401,469	602,613	1,004,082
Additions	1,836	48,500	50,336
Deficit on revaluation	(21,922)	(60,613)	(82,535)
Currency translation adjustment	14,480	4,429	18,909
Valuation at 31 August 2011	<b>395,863</b>	<b>594,929</b>	<b>990,792</b>

**Properties held in**

UK	21,125	485,500	506,625
Ireland	374,738	109,429	484,167
	<b>395,863</b>	<b>594,929</b>	<b>990,792</b>

	Audited		Total
	Investment Properties	Investment properties under development	
Valuation at 1 March 2010	514,995	582,440	1,097,435
Additions	2,137	100,746	102,883
Disposals	(3,432)	(40,583)	(44,015)
Deficit on revaluation	(91,236)	(31,304)	(122,540)
Currency translation adjustment	(20,995)	(8,686)	(29,681)
Valuation at 28 February 2011	<b>401,469</b>	<b>602,613</b>	<b>1,004,082</b>

**Properties held in**

UK	21,125	483,500	504,625
Ireland	380,344	119,113	499,457
	<b>401,469</b>	<b>602,613</b>	<b>1,004,082</b>

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

These valuations have been carried out by the Directors, with input from the Investment Adviser, using assumptions, and exercising certain judgements, based on market conditions as at 31 August 2011.

Further details of the assumptions used in the valuations are set out in the Investment Adviser's report, under the heading valuation methodology.

**3. PROFIT ON DISPOSAL OF INVESTMENT IN CREO**

In thousands of pounds sterling

**Assets classified as held for sale**

Group	31 August 2011 unaudited	28 February 2011 audited
Carrying amount at start of the period	-	27,680
Disposal	-	(27,680)
Carrying amount at end of the period	-	-

During the prior period, the Group disposed of its investment in China Real Estate Opportunities ("CREO") realising cash of £27.7 million, and resulted in a gain on sale of:

Carrying amount of investment sold	27,680
Proceeds on disposal	(27,680)
Foreign currency translation reserve reclassified	26,233
Gain on disposal	26,233

NOTES TO THE CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
CONTINUED

**4. TAXATION**

In thousands of pounds sterling

**(a) Recognised in the income statement**

For the six months ended

	31 August 2011 unaudited	31 August 2010 unaudited
<b>Current tax credit / (expense)</b>		
Credit / (charge) for the period	116	(37)
<b>Deferred tax credit</b>		
Fair value movement of financial derivatives	322	300
Valuation losses on investment properties and on investment properties under development	1,314	1,820
	1,636	2,120
<b>Total Income tax credit</b>	<b>1,752</b>	<b>2,083</b>

**(b) Recognised in the statement of financial position**

Deferred tax assets and liabilities are attributable to the following:

**At 31 August 2011 and 28 February 2011**

	Assets		Liabilities		Net	
	31 Aug 2011 unaudited	28 Feb 2011 audited	31 Aug 2011 unaudited	28 Feb 2011 audited	31 Aug 2011 unaudited	28 Feb 2011 audited
Derivative financial instruments	(1,118)	(764)	-	-	(1,118)	(764)
Investment properties and investment properties under development	-	-	12,186	12,923	12,186	12,923
	<b>(1,118)</b>	<b>(764)</b>	<b>12,186</b>	<b>12,923</b>	<b>11,068</b>	<b>12,159</b>

Movement in temporary differences during the period:

**31 August 2011 - unaudited**

	Derivative financial instruments	Investment and development properties	Total
At 1 March 2011	(764)	12,923	12,159
Recognised in the statement of comprehensive income	(322)	(1,314)	(1,636)
Foreign currency movements	(32)	577	545
At 31 August 2011	(1,118)	12,186	11,068

**28 February 2011 - audited**

	Derivative financial instruments	Investment and development properties	Total
At 1 March 2010	(1,451)	26,385	24,934
Recognised in the statement of comprehensive income	622	(12,283)	(11,661)
Foreign currency movements	65	(1,179)	(1,114)
At 28 February 2011	(764)	12,923	12,159

(i) Profits of the company are subject to taxation in Jersey at a rate of 0%.

(ii) A 5% Goods and Services Tax ("GST") exists in Jersey under the Goods and Services Tax (Jersey) Law 2007. The Company may apply for an exemption under the Goods and Services Tax (International Service Entities) (Jersey) Regulations 2008 on payment of an annual fee of £200. The Company has been granted international service entity status for the year ended 28 February 2011 and for the period ended 31 August 2011.

NOTES TO THE CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
CONTINUED

**5. FINANCING**

**(a) Interest Bearing Loans and borrowings**

In thousands of pounds sterling

	31 August 2011 unaudited	28 February 2011 audited
<b>Non - current liabilities</b>		
Senior loan secured on Irish property assets	332,100	319,800
Bank loans secured on Irish property assets	4,483	4,453
	<b>336,583</b>	<b>324,253</b>
<b>Current liabilities</b>		
Bank loans secured on UK property assets	277,823	260,003
Series A and B Secured Loan notes fixed at 6.324%	147,786	146,255
Bank loans secured on Irish property assets	738,711	768,852
7.5% Convertible Unsecured loan Stock 2011 (note 14)	-	100,895
Zero Dividend Preference Shares (note 14)	-	133,100
	<b>1,164,320</b>	<b>1,409,105</b>

**(b) Maturity Analysis**

In thousands of pounds sterling

The following tables set out the maturity profile of the Group's financial liabilities.

**31 August 2011 (unaudited)**

	Carrying amount	Contractual cash flows	< 1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Series A&B Secured Loan notes fixed at 6.324%	147,786	174,214	174,214	-	-	-	-	-
Variable rate debt fixed with interest rate swaps	1,097,047	1,139,853	799,556	334,785	150	150	150	5,062
Variable rate debt	256,070	269,774	269,774	-	-	-	-	-
Provisions	904	904	38	38	38	38	38	714
Trade and other payables	96,841	96,841	96,841	-	-	-	-	-
	1,598,648	1,681,586	1,340,423	334,823	188	188	188	5,776

The following table indicates the periods in which the cash flows associated with derivatives are expected to occur.

<b>31 August 2011</b>	Carrying amount	Contractual cash flows	< 1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Interest rate swap liability	67,080	67,564	30,131	23,136	11,781	2,516	-	-

	31 August 2011
Disclosed as:	
Included in current liabilities	1,899
Included in non-current liabilities	65,181
	<b>67,080</b>

NOTES TO THE CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS  
CONTINUED

**5. FINANCING (CONTINUED)**

**(b) Maturity Analysis (Continued)**

In thousands of pounds sterling

**28 February 2011 (audited)**

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	2011	2012	2013	2014	2015	> 5 Years
Zero Dividend Preference shares	133,100	136,021	136,021	-	-	-	-	-
Convertible Loan Stock	100,895	102,787	102,787	-	-	-	-	-
Series A and B Secured Loan notes (fixed interest rate 6.324%)	146,255	171,808	171,808	-	-	-	-	-
Variable rate debt	219,895	231,384	231,384	-	-	-	-	-
Variable rate debt fixed with interest rate swaps	1,133,213	1,173,567	844,179	323,986	129	129	129	5,015
Provisions	889	891	37	37	37	37	37	706
Trade and other payables	91,408	91,408	91,408	-	-	-	-	-
	<b>1,825,655</b>	<b>1,907,866</b>	<b>1,577,624</b>	<b>324,023</b>	<b>166</b>	<b>166</b>	<b>166</b>	<b>5,721</b>

The following table indicates the periods in which the cash flows associated with derivatives are expected to occur.

28 February 2011	Carrying amount	Contractual cash flows	< 1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Interest rate swap liability	70,048	98,974	35,591	33,355	20,300	8,655	1,073	-

28 February 2011

Disclosed as:

Included in current liabilities	4,834
Included in non-current liabilities	65,214
	<b>70,048</b>

**6. TRADE AND OTHER RECEIVABLES - CURRENT**

In thousands of pounds sterling

	31 August 2011 unaudited	28 February 2011 audited
Trade receivables	1,409	1,177
Other loans	2,822	2,719
Other debtors and prepayments	5,470	64,669
	<b>9,701</b>	<b>68,565</b>

Included in other debtors and prepayments at 28 February 2011 was an amount of £63.2 million, which was due in respect of a property disposal in the year ended 28 February 2011. This was received in the current period and used to pay existing debt.

**7. TRADE AND OTHER PAYABLES - CURRENT**

In thousands of pounds sterling

	31 August 2011 unaudited	28 February 2011 audited
Interest and finance accruals	96,916	67,665
Capital accruals	14,763	12,311
Other creditors and accruals	10,064	9,686
Rentals received in advance	2,571	2,433
Current tax payable	1,525	1,746
	<b>125,839</b>	<b>93,841</b>

Included in interest and finance accruals at 28 February 2011 was an amount of £7.6m in respect of interest due on CULS which were converted to equity as detailed in note 14.

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**8. SHARE CAPITAL AND RESERVES**

In thousands of pounds sterling

**(a) Share capital**

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Balance at beginning of period / year	3,340	3,338
CULS converted into equity in the year	-	2
Ordinary shares issued as part of restructuring (note 14)	1,113	-
Balance at the end of the period / year	<b>4,453</b>	<b>3,340</b>

**(b) Share premium**

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Balance at beginning of period	216	12
Share premium arising on CULS converted in the period	-	204
Share premium arising on restructuring (note 14)	1,225	-
Balance at the end of the period / year	<b>1,441</b>	<b>216</b>

On 12 May 2011, 111,336,528 ordinary shares of £0.01 each in REO plc., were issued to the CULS and ZDP holders as part of the Group's restructuring at their market price at that date of £0.021 each. This resulted in an increase in issued share capital of £1,113k and in share premium of £1,225k.

During the prior year, 205,668 CULS were converted into ordinary shares of £0.01 each. This resulted in an increase in share capital and share premium of £206k.

**(c) Non Controlling Interest**

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Balance at beginning of period	-	-
Shares and warrants in BPSSV granted to CULS and ZDP holders (note 14)	16,104	-
Shares in BPSSV granted to Treasury Holdings (note 16)	3,262	-
Non controlling interest; share of loss in the period	(17,553)	-
Balance at the end of the period	<b>1,813</b>	<b>-</b>

At the period end, in total, 46% of BPSSV is held as a non controlling interest outside of the Group and this note reflects the movement in the period.

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**9. NET DEFICIT VALUE**

In thousands of pounds sterling

**(i) Basic net deficit**

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Net deficit attributable to ordinary shareholders of the company	(683,587)	(800,699)
Number of ordinary shares in issue ('000)	445,300	334,010
<b>Basic net deficit per share (pence)</b>	<b>(153.5)</b>	<b>(239.7)</b>

At the 31 August 2011, due to the conversion of the CULS in the period there were no instruments currently in issue that could trigger any event which would dilute the number of ordinary shares in issue.

For the year ended 28 February 2011, there was no difference between the basic and diluted loss per share as the effect of any potentially dilutive securities was anti-dilutive.

**(ii) EPRA net deficit**

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Net deficit	(683,587)	(800,699)
Fair value of derivative financial instruments	67,080	70,048
Less non controlling share of movement in fair value of derivatives	(11,161)	-
Net deferred tax assets and liabilities	11,068	12,159
EPRA net deficit	(616,600)	(718,492)
Diluted number of ordinary shares in issue ('000)	445,300	334,010
<b>Diluted EPRA net deficit per share (pence)</b>	<b>(138.5)</b>	<b>(215.1)</b>

The EPRA net deficit per share excludes the fair value of derivative financial instruments and deferred taxation assets and liabilities on revaluations and is calculated on a fully diluted basis.

**10. SEGMENT REPORTING**

As required by IFRS 8 *Operating Segments*, the segment analysis below follows the information provided to the Board of Directors, which is the chief operating decision maker ("CODM"). The Group's identified reportable segments are the geographical locations in which it operates, analysed between investment properties and investment properties under development, which are generally managed by separate teams.

The relevant revenue, assets and capital expenditure are set out below. This segmental information is set out on the same basis and using the same comparatives as the statement of financial position and the statement of comprehensive income.

**(a) Information about reportable segments**

In thousands of pounds sterling

	<b>Investment properties Ireland</b>	<b>Investment properties under development Ireland</b>	<b>Investment properties UK</b>	<b>Investment properties under development UK</b>	<b>Total</b>
<b>At 31 August 2011</b>					
Revenue*	16,200	-	712	-	<b>16,912</b>
Valuation losses on properties*	(21,149)	(21,590)	(773)	(39,023)	<b>(82,535)</b>
<b>At 31 August 2011</b>					
Property assets	374,738	109,429	21,125	485,500	<b>990,792</b>
Capital expenditure*	1,063	11,806	773	36,694	<b>50,336</b>

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**10. SEGMENT REPORTING (CONTINUED)**

**(a) Information about reportable segments (Continued)**

	Investment properties Ireland	Investment properties under development Ireland	Investment properties UK	Investment properties under development UK	Total
<b>At 31 August 2010</b>					
Revenue*	16,585	-	774	-	<b>17,359</b>
Valuation (losses) / gains on properties*	(12,904)	(15,404)	688	(11,807)	<b>(39,427)</b>
<b>At 28 February 2011</b>					
Property assets	380,344	119,113	21,125	483,500	<b>1,004,082</b>
Capital expenditure**	1,920	48,368	217	52,378	<b>102,883</b>

\* For the 6 month period ended 31 August 2011

\*\* For the year ended 28 February 2011

Capital expenditure includes capitalised interest, arrangement fees and development fees of £46 million in the 6 months to 31 August 2011 (year to 28 February 2011 - £102.8 million).

**(b) Reconciliation of reportable segment profit or loss**

**For the six months ended 31 August**

In thousands of pounds sterling

	31 August 2011 unaudited	31 August 2010 unaudited
<b>Revenue</b>		
Total revenue for reported segments	16,912	17,359
<b>Profit or loss</b>		
Valuation losses on properties	(82,535)	(39,427)
<b>Total loss per reportable segments</b>	<b>(65,623)</b>	<b>(22,068)</b>
<b>Other profit or loss - unallocated amounts</b>		
Other income	396	620
Profit on disposal of investment property	-	244
Profit on disposal of investment in CREO	-	26,233
Management fee	(912)	(1,102)
Administrative expenses	(5,690)	(5,522)
Financial income	8,986	83
Financial expenses	(45,178)	(45,903)
Gain on equitisation of CULS and ZDPs	226,958	-
<b>Consolidated profit / (loss) before income tax</b>	<b>118,937</b>	<b>(47,415)</b>

**11. ADMINISTRATION EXPENSES**

In thousands of pounds Sterling

For the six months ended 31 August

	31 August 2011 unaudited	31 August 2010 unaudited
General expenses	<b>5,690</b>	<b>5,522</b>

Included in general expenses in the period is an amount of £0.8 million in respect of a share based payment to Treasury Holdings, this has been detailed further in note 16. Restructuring costs in the 6 months to 31 August 2011 amounted to £1.5 million.

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**12. FINANCE INCOME AND EXPENSE**

In thousands of pounds sterling

**a) Recognised in profit or loss**

For the six months ended

	<b>31 August 2011 unaudited</b>	<b>31 August 2010 unaudited</b>
Interest income on bank deposits	53	83
Fair value movement on derivatives	8,933	-
<b>Finance income</b>	<b>8,986</b>	<b>83</b>
Other interest and finance charges	(22,965)	(619)
Interest expense on bank loans repayable, other than by installments within 5 years	(27,612)	(7,158)
Interest expense on Senior loan repayable, other than by installment, within 5 years	(7,115)	(6,906)
Interest on 7.5% Convertible Unsecured Loan Stock 2011	(1,511)	(3,791)
Interest on Zero Dividend Preference Shares	(2,312)	(5,527)
Interest on 6.324% Series A and B loan notes 2011	(7,116)	(4,798)
Fair value movement on derivatives	(3,575)	(14,404)
Cash payment due on derivatives	(8,350)	(21,546)
<b>Finance expense</b>	<b>(80,556)</b>	<b>(64,749)</b>
Less: Interest and finance charge capitalised	35,378	18,846
	<b>(45,178)</b>	<b>(45,903)</b>
<b>Net finance costs</b>	<b>(36,192)</b>	<b>(45,820)</b>

Included under finance income is a gain of £8.7 million on the fair value movement of a swap which was terminated in the period. The associated swap break cost of £6.8 million is included in the heading other interest and finance charges. This gives a total net gain on the termination of this swap of £1.9 million, which is recognised in the statement of comprehensive income in the period to 31 August 2011.

Also included in other interest and finance charges are various banking, loan and other finance related charges and fees on the Groups' loan portfolio.

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing and investment activities. The fair value of these interest rate swaps is the estimated amount the group would receive or pay to terminate the swaps at the end of the reporting period. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income.

**13. PROFIT / (LOSS) PER SHARE**

In thousands of pounds sterling

**(i) Basic profit / (loss) per share for the six months ended**

	<b>31 August 2011 unaudited</b>	<b>31 August 2010 unaudited</b>
Profit / (loss) attributable to ordinary shareholders	<b>138,242</b>	<b>(45,332)</b>
Weighted average number of ordinary shares ('000)		
<b>Issued shares at beginning of period</b>	334,010	333,804
Effect of shares issued during the period	46,390	34
<b>Weighted average number of ordinary shares</b>	<b>380,400</b>	<b>333,838</b>
<b>Basic profit / (loss) per share (pence)</b>	<b>36.3</b>	<b>(13.6)</b>

At the 31 August 2011, due to the conversion of the CULS in the period there were no instruments currently in issue that could trigger any event which would dilute the number of ordinary shares in issue.

For the period ended 31 August 2010, there was no difference between the basic and diluted loss per share as the effect of any potentially dilutive securities was anti-dilutive.

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**13. PROFIT / (LOSS) PER SHARE (CONTINUED)**

In thousands of pounds sterling

**(ii) Diluted EPRA earnings / (loss) per share for the six months ended**

	<b>31 August 2011 unaudited</b>	<b>31 August 2010 unaudited</b>
Profit / (loss) attributable to ordinary shareholders diluted	138,242	(45,332)
Valuation movement on investment properties and on investment properties under development	82,535	39,427
Less non controlling interest in respect of property valuation movement	(18,306)	-
Profit on disposal of property	-	(244)
Movement in fair value of financial instruments	5,356	14,404
Less non controlling interest in respect of fair value of financial instruments	(1,141)	-
Deferred tax	(1,636)	(2,120)
	<b>205,050</b>	<b>(6,135)</b>
<b>Weighted average number of ordinary shares (diluted) at 31 August ('000)</b>	<b>380,297</b>	<b>333,838</b>
Diluted EPRA gain / (loss) per share (pence)	53.9	(1.9)

An EPRA measure has been included to assist comparison between European property companies. The EPRA earnings excludes investment property and investment property under development revaluations, gains on disposals, movements on derivative financial instruments and their related tax consequences.

**14. GAIN ON EQUITISATION OF CULS AND ZDPS**

In thousands of pounds sterling

	<b>31 August 2011 unaudited</b>	<b>31 August 2010 unaudited</b>
Gain on equitisation of CULS and ZDPS	<b>226,958</b>	-

On 11 April 2011, the Group announced the final terms of the restructuring, whereby the liabilities due to the holders of both the Group's 7.5% CULS and the ZDPs were to be converted into equity of the newly formed Battersea Power Station subsidiary; Shareholder Vehicle ("BPSSV") and in Real Estate Opportunities plc ("REO").

The restructuring became effective on 12 May 2011, the main impact of which was:

- The holders of the CULS and the ZDPs received Ordinary Shares in REO plc and shares and warrants in BPSSV;
- The listings of the CULS and ZDPs on the Official List (standard category) were cancelled;
- 111 million additional Ordinary Shares in REO were admitted to the Official List;
- The obligations under the Oriental Loan Note (OLNs) were novated to BPSSV and
- Certain other liabilities of the BPSSV Group such as loans to other REO Group entities were swapped for equity in BPSSV.

The table below sets out the net gain recognised by the Group in the Statement of Comprehensive Income.

	<b>31 August 2011 unaudited</b>
Interest and principal on CULs equitised	109,988
ZDP's equitised	135,412
Share capital and premium arising on REO plc share issue	(2,338)
Value of BPSSV shares issued to CULs and ZDP holders (i)	(16,104)
Net gain on restructuring	<b>226,958</b>

The CULS and ZDP holders were provided with 300 million warrants entitling the holders to convert into ordinary shares of BPSSV on a one for one basis at any time up to 15 years from the date of the restructuring, if the fair value of Battersea Power Station less related debt exceeds a certain specified threshold target. At 12 May 2011, management estimated that the warrants had no material value.

(i) As a result of the restructuring, 46% of BPSSV is now owned outside of the REO Group and is recognised as a non controlling interest. Of this total non controlling interest, 7.7% is held by Treasury Holdings and is accounted for as a share based payment as detailed in note 16.

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**15. CAPITAL COMMITMENTS**

Future capital expenditure, contracted for and approved by the Directors, but not provided for in these interim financial statements, is as follows:

In thousands of pounds sterling

	<b>31 August 2011 unaudited</b>	<b>28 February 2011 audited</b>
Contracted for	26	4,571
Authorised not contracted	70	23
	<b>96</b>	<b>4,594</b>

**16. RELATED PARTIES**

Pursuant to the Investment Adviser Agreements, Treasury Holdings earned investment management fees of £0.9m for the 6 months period ended 31 August 2011 (31 August 2010 £1.1m) and net project development and management fees of £4.9m during the period (31 August 2010 £6.4m) in respect of the Irish and Global Property Portfolios. The project development and management fees are capitalised in the period they are incurred. Unpaid fees amounted to £7.5 million at 31 August 2011, (31 August 2010: £2.5 million).

Fees of £360k for the 6 month period ended 31 August 2011 (31 August 2010: £332k) in respect of accounting and administrative services, taxation advice, legal advice and investor relations were payable to Treasury Holdings in respect of agreements with the Company. Fees unpaid at 31 August 2011 amounted to £253k (31 August 2010: £110k).

There was no performance fee payable during the period ended 31 August 2011 (31 August 2010: £nil).

During the period, as part of the restructuring of the Group's obligations and the establishment of a separate vehicle for its interest in Battersea Power Station, Treasury Holdings was granted ordinary shares in BPSSV with an estimated value of £3.2 million at that date. This is a share based payment. One quarter of this charge, £835k, has been recognised in the current period for services rendered by Treasury Holdings as part of the restructuring and the remaining balance will be recognised over 14 years based on the expected development life of the Battersea asset.

**17. SUBSEQUENT EVENTS**

Post period end the Group completed the sale to a third party of the UK investment property owned by REO (Stewarts Road) Limited. The property was sold for £6.9 million which is slightly in excess of its carrying value at 31 August 2011.

# CORPORATE INFORMATION

## **DIRECTORS**

Raymond Y F Horney, Chairman  
Richard J Barrett  
Keith A Jenkins  
J Philip Jenkinson  
Garth P D Milne  
Martin W Richardson  
Robert G Tincknell

## **ADMINISTRATOR, SECRETARY AND REGISTERED OFFICE**

Ogier Fund Administration (Jersey) Limited  
Ogier House  
The Esplanade  
St Helier  
Jersey JE4 9WG

## **GLOBAL AND IRISH PROPERTY AND INVESTMENT ADVISER**

Treasury Holdings  
Connaught House  
1 Burlington Road  
Dublin 4  
Ireland

## **REGISTRAR**

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

## **AUDITOR**

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

## **UK BROKER**

Matrix Corporate Capital LLP  
One Vine Street  
London W1J OAH

Real Estate Opportunities plc,  
Ogier House  
The Esplanade  
St. Helier,  
Jersey JE4 9WG

[www.realestateopportunities.co.uk](http://www.realestateopportunities.co.uk)