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# R. E. A. Holdings plc

## Annual Report 2002



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# R.E.A. Holdings plc

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## Directors

- R M Robinow<sup>+</sup> *Chairman.* Was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, has been involved for over 25 years in the plantation industry. Non-executive but actively involved for the major part of his working time in the management of the group. (Age 57)
- J C Oakley *Managing director.* Was appointed a director in 1985 after early experience in investment banking and general management. Appointed managing director on 1 January 2002. (Age 54)
- J M Green-Armytage *Independent non-executive director.* Was a non-executive director from 1984 to 1994. Rejoined the board in a non-executive capacity in 1997. Director of JZ Equity Partners PLC and a number of other companies. (Age 57)
- J R M Keatley<sup>+</sup> *Senior independent non-executive director.* Was a non-executive director from 1975 to 1983 (and chairman from 1978 to 1983). Rejoined the board in a non-executive capacity in 1985 and is now chairman of the audit, remuneration and nomination committees. After a background in the fertiliser industry is now managing director of NPK Holdings Limited. (Age 69)
- L E C Letts<sup>+</sup> *Independent non-executive director.* Has been a non-executive director since 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, was a main board director of Jardine Matheson & Co. Limited for 15 years and then set up his own business. Thereafter, for over 40 years, has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. Present directorships include Kuala Lumpur Kepong Berhad and Batu Kawan Berhad, Malaysia; P.T. Multi Mechsindo Industries, Indonesia; and Farming Management Services Pty Limited, Western Australia. (Age 84)
- C L Lim *Independent non-executive director.* Was appointed a director in August 2002. Has been involved for over 30 years in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. Present directorships include Agusan Plantations Inc. Philippines; and Pan Abrasives (Private) Limited, Singapore. (Age 61)

<sup>+</sup> member of the nomination committee

<sup>\*</sup> member of the audit committee

## Secretaries and registered office

R.E.A. Services Limited  
Third Floor  
40-42 Osnaburgh Street  
London NW1 3ND

## Registrars and transfer office

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham, Kent BR3 4TU

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# Notice of meeting

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Notice is hereby given that the annual general meeting of the company will be held at the London office of Ashurst Morris Crisp at Broadwalk House, 5 Appold Street, London EC2A 2HA on 26 June 2003, at 10.00 am for the following purposes:

*As ordinary business*

- 1 To receive and consider the company's annual report for the year ended 31 December 2002.
- 2 To approve the directors' remuneration report for the year ended 31 December 2002.
- 3 To re-elect as a director Mr R M Robinow, who retires by rotation.
- 4 To re-elect as a director Mr J M Green-Armytage, who retires by rotation.
- 5 To re-elect as a director Mr C L Lim, who was appointed since the last annual general meeting and who retires in accordance with Article 120.
- 6 Special notice having been given, to re-appoint Deloitte & Touche, chartered accountants, who were appointed during the year to fill the casual vacancy caused by the resignation of Arthur Andersen, as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix the remuneration of the auditors.

*As special business*

To consider and if thought fit to pass the following resolutions as ordinary resolutions:

- 7 That
  - (i) the directors of the company be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the company to allot relevant securities (as defined in sub-section (2) of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,445,000 such authority to expire on 25 June 2008;
  - (ii) without prejudice to paragraph (i) above the directors of the company be and are hereby further generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the company to allot 9 per cent cumulative preference shares up to an aggregate amount of £1,000,000 such authority to expire 25 June 2008;
  - (iii) the authority conferred on the directors pursuant to paragraphs (i) and (ii) above includes the power to make an offer or agreement which would or might require relevant securities to be allotted after the authority has expired; and
  - (iv) the authority conferred on the directors pursuant to paragraphs (i) and (ii) above supersedes the authority conferred on the directors by an ordinary resolution passed at the extraordinary general meeting of the company held on 22 May 2002, which authority is hereby revoked
- 8 That subject as hereinafter provided the purchase by the company of up to 242,500 warrants of the company as constituted by deed poll dated 10 May 1996 ("warrants") be and is hereby authorised provided always that
  - (i) the price to be paid for the warrants shall be not more than 5 per cent above the average of the market values for the warrants for the five business days immediately preceding the date of purchase; and

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- (ii) the authority given by this resolution shall expire at the conclusion of the next annual general meeting at which accounts are laid before the company.

To consider and if thought fit to pass the following resolution as a special resolution:

9 That

- (i) the directors of the company be and are hereby empowered in accordance with section 95 of the Companies Act 1985 to allot equity securities (as defined in sub-section (2) of section 94 of the Companies Act 1985) pursuant to the authority conferred on them by resolution 7 set out in the notice of the annual general meeting of the company to be held in 2003, as if sub-section (10) of section 89 of the Companies Act 1985 did not apply to the allotment, such power to expire on the date of the annual general meeting of the company to be held in 2004, provided that this power is limited to:
- (a) the allotment of equity securities in connection with a rights issue or open offer in favour of (i) the holders of ordinary shares in the capital of the company ("ordinary shares") or (ii) the holders of ordinary shares and the holders of warrants to subscribe ordinary shares and/or loan stock convertible into ordinary shares, where the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares held by such holders and, if applicable, to the entitlements of the holders of warrants to subscribe ordinary shares and/or of the holders of loan stock to convert the same into ordinary shares under the terms of the warrants and/or loan stock, subject only to such exclusions or other arrangements as the directors consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and
- (b) the allotment (otherwise pursuant to (a) above) of equity securities up to an aggregate nominal value of £326,000; and
- (ii) the power conferred on the directors by paragraph (i) above includes the power to make an offer or agreement which would or might require equity securities to be allotted after the power has expired.

23 May 2003

By order of the board  
R.E.A. SERVICES LIMITED  
Secretaries



*A member of the company entitled to attend and vote at the meeting may appoint one or more proxies to attend and on a poll vote instead of him or her. A proxy need not be a member. The instrument appointing a proxy must be deposited at the office of the registrars not less than forty-eight hours before the time appointed for holding the meeting. The appointment of a proxy will not prevent a member from attending and voting at the meeting should he or she wish to do so.*

*The register of directors' interests in the share capital and debentures of the Company are available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the annual general meeting and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.*

*Holders of 4 per cent convertible loan stock 2012 and of warrants of the company are entitled to receive a copy of the annual report but not to attend and vote at the annual general meeting. Holders of 9 per cent cumulative preference shares are entitled to attend and vote at the meeting because the cumulative preference dividend is more than six months in arrears.*

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## Chairman's statement

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### Results

The profit on ordinary activities before taxation for 2002, as shown in the accompanying consolidated profit and loss account, and the comparative figure for 2001, may be analysed as follows:

	2002 £'000	2001 £'000
Normal profits		
Continuing operations	1,782	(34)
Discontinued operations	-	13
Sale of assets and investments	<u>(326)</u>	<u>448</u>
	<u>1,456</u>	<u>427</u>

The significant increase in normal profits from continuing operations in 2002 results from a combination of the increasing crops now being harvested from the East Kalimantan project and higher world market prices for crude palm oil, particularly in the second half of the year.

Whilst shareholders will hopefully be pleased at the returns that are, at last, beginning to flow from the continuing operations, they should note from the full consolidated profit and loss account that a substantial proportion of 2002 profits was attributable to minority interests. The extent of such interests for the most part reflects the fact that UK overheads are wholly attributable to the group while overseas profits are not. If, as is hoped, UK overheads remain static and overseas profits continue to grow, the proportion of total profits represented by minority interests may be expected to reduce.

### Group development

In April 2002, the company acquired the whole of the issued ordinary share capital of Makassar Participations plc and this resulted in the company increasing its equity interest in Makassar Investments Limited ("Makassar") (the Jersey holding company of PT REA Kaltim Plantations, the direct owner of the East Kalimantan project) to 51 per cent.

Also in April 2002, the company announced an open offer of convertible loan stock, which, on its completion in May, raised some £3.8 million (before expenses). With these monies, the company supported a rights issue by Makassar. Outside shareholders in Makassar elected not to take up their rights and, in consequence, the company further increased its equity interest in Makassar to its current level of 79 per cent.

Makassar was able, with the proceeds of its rights issue, to provide additional financial support to REA Kaltim and this allowed the latter to move forward with proposals for the rescheduling of its indebtedness. It will be clear from the accompanying review of operations that full implementation of such proposals has still to be achieved but a major step forward was taken in December 2002 with the signature of formal rescheduling agreements with a sufficient number of REA Kaltim's Indonesian bankers to ensure that, in relation to REA Kaltim's Indonesian bank borrowings totalling \$29.5 million, no event of default can now be declared in respect of events that arose prior to execution of the rescheduling agreements.

In May 2002, shareholders approved the divestment of a remaining 25 per cent interest in the former Bangladesh tea operations, the sale of which had been agreed in 2001 but on a basis that was conditional upon shareholder approval. This divestment completed implementation of the group's decision to base its future entirely on the East Kalimantan project and to sell all other interests.

### Dividends

No dividend has been paid on the 9 per cent cumulative preference shares since 30 June

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2001 and the fixed cumulative dividend on those shares is therefore in arrears to the extent of the semi-annual dividend that fell due on 31 December 2001 and the dividends due in respect of 2002. The rights of the preference shares provide for accumulation of arrears of preference dividends so that no entitlement to dividends will be lost by preference shareholders. However, the directors recognise that many preference shares are acquired for income and that the postponement of that income is unsatisfactory.

Subject to the price of crude palm oil remaining at or above current levels for the remainder of 2003, and provided that any requirement in 2003 to reduce external group obligations can be met substantially by new borrowings and from the cash resources that the group currently has in hand, the directors hope that the company will be able to recommence payment of dividends on the preference shares on 31 December 2003 with a dividend on that date equal to the semi-annual dividend then falling due. Thereafter the directors would hope to be able progressively to reduce the accumulated arrears of dividend on the preference shares.

No dividend can be paid on the ordinary shares until all arrears of dividend on the preference shares have been eliminated. Accordingly, no ordinary dividends have been paid or are proposed in respect of 2002.

#### **Staff**

The directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

#### **Prospects**

Looking forward to 2003, the directors hope that the good operational progress achieved in 2002 will continue. Existing planted areas will further mature during the year and with that further maturity, yields should continue to grow. Crude palm oil prices are still at satisfactory levels and, whilst commodity prices are always difficult to predict, look set fair to remain (at least for the rest of the year) at levels that will be highly remunerative for the group. With increasing crops and better prices, the directors intend that REA Kaltim should, in 2003, recommence extension planting at an initial annual rate of 3,000 hectares.

Financially, the group continues to face some challenges with final agreement still to be reached on the restructuring of indebtedness to Commerzbank (South East Asia) Limited and an unresolved outstanding demand, from interests associated with Mr M E Zukerman, for repayment of a loan to REA Kaltim of US\$ 8.175 million. In addition, the group still has to contend with the nuisance of the litigation brought in New York against the company and two of its directors by the Zukerman interests. The risks inherent in these uncertainties have, however, been reduced by the greater financial flexibility that was created by the successful completion, in March 2003, of the open offer and placing announced in February which raised a further £3.4 million (before expenses).

Optimism must always be tempered by realism and the financing risks referred to above are but one aspect of the many risks that the group faces. Nevertheless, the directors are becoming increasingly optimistic that, with the recommencement of extension planting now planned, it will yet prove possible to realise the original vision of developing the East Kalimantan project into one of the largest single site oil palm plantations in South East Asia and, in so doing, to generate very significant growth for the company and its shareholders.

RICHARD M ROBINOW  
Chairman

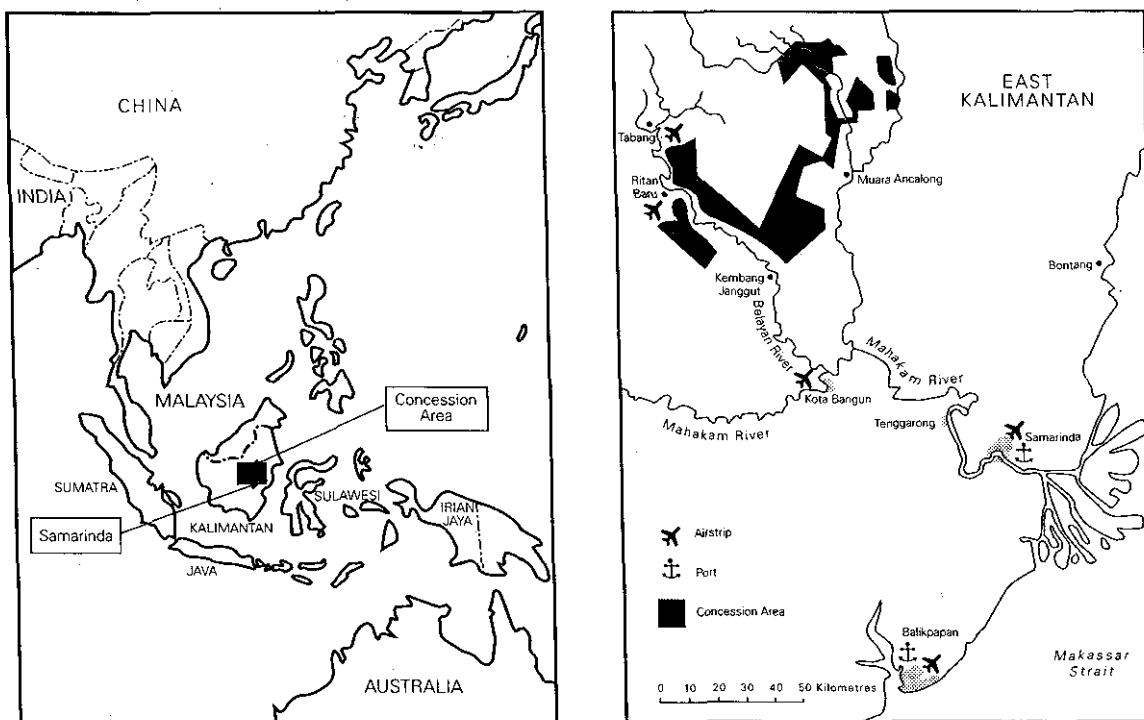


## Review of operations

The entire business of the group is represented by the oil palm plantation development in East Kalimantan ("the East Kalimantan project") owned by PT REA Kaltim Plantations ("REA Kaltim"), a 95 per cent owned subsidiary of Makassar Investments Limited ("Makassar"). Ownership of the balance of 5 per cent of REA Kaltim rests with a local Indonesian investor but on terms that the economic benefits of such ownership will substantially flow to Makassar. At year end, the company held 79 per cent of the issued ordinary share capital and 84 per cent of the issued voting share capital of Makassar.

### Location and development area

The East Kalimantan project is based on an overall concession area of 125,000 hectares, located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lying either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia.



Of the total concession area, 50,000 hectares ("the nucleus area") has been designated for eventual development by REA Kaltim itself. It has been agreed in principle that the balance of 75,000 hectares ("the joint venture area") should, subject to financing, be developed under the joint ownership of REA Kaltim and local Indonesian interests.

Land within the concession area is being released to REA Kaltim by the Indonesian Ministry of Forestry in stages that reflect the pace of REA Kaltim's development. As each land area is handed over, REA Kaltim is able to initiate the titling process. This leads to the eventual issue of a registered land title certificate (known as an "*hak guna usaha*" or "*hgu*") but only after insertion of boundary markers, as part of a cadastral survey, and completion of other required legal procedures. To date, the Ministry of Forestry has made four land releases and land title certificates have been obtained in respect of three of these releases totalling 30,106

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hectares. The land registry survey of the area covered by the fourth (and latest) release of 13,782 hectares has been completed and a land title certificate for this area is expected to be issued during the course of 2003.

The overall areal composition of the REA Kaltim development at 31 December 2002 was as follows:

	<i>Ha</i>
Nucleus area	
Mature oil palm	12,334
Immature oil palm	<u>875</u>
	13,209
Nurseries	25
Other areas	2,278
Plantable reserve (fully titled)	<u>14,594</u>
	30,106
Plantable reserve (surveyed awaiting full title)	13,782
Plantable reserve (to be released)	<u>6,112</u>
	50,000
Joint venture area	
Plantable reserve (to be released)	<u>75,000</u>
	<u>125,000</u>

### **Production**

The fresh fruit bunch ("FFB") crop for the year totalled 199,184 tonnes, compared with 123,992 tonnes in 2001. The crop for 2002 was in total some 6.5 per cent below estimate. This was a very acceptable outcome given that 2002 was considered to be an El Nino year of medium intensity. Whilst the REA Kaltim estates are located in a high rainfall area having average rainfall in excess of 3,000 mm per annum, precipitation levels were significantly down in the second half of 2002 and some moisture deficits were experienced during this period. This is expected to have a limited impact on current year crops.

There is a considerable volume of data available on the FFB yields that are achieved from the modern hybrid material planted on estates with soil and climatic conditions similar to those prevailing on the REA Kaltim estates. Yields per hectare climb rapidly during the first four years of production to a peak level, normally of around 24 tonnes per hectare. Production then remains at around that level for about 8 years and thereafter reduces gradually in the second half of the palm's 25 year economic life. In fact, yields in excess of 28 tonnes per hectare were achieved in 2002 from the earliest plantings and this indicates that the average peak yield across all plantings is likely materially to exceed 24 tonnes per hectare. Accordingly, further significant growth toward a fully mature output of in excess of 300,000 tonnes per annum can be confidently expected over the next few years.

The oil mill continued to run satisfactorily throughout the year. Crude palm oil ("CPO") and palm kernel production for 2002 totalled respectively 49,604 tonnes (2001 - 28,557 tonnes) and 9,094 tonnes (2001 - 5,431 tonnes). The oil extraction rate for 2002 of 24.9 per cent is considered to be an excellent result and almost certainly one of the highest in the industry. The palm kernel extraction rate for 2002 of 4.6 per cent reflects the high proportion of crop from newly mature areas and should be capable of improvement.

In 2002, the capacity of the single production line already in operation in the oil mill was increased from 30 to 40 tonnes per hour. The additional capacity was brought on stream in July and so was available to meet the increased processing requirements for the five peak cropping months of August to December.

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## Review of operations *continued*

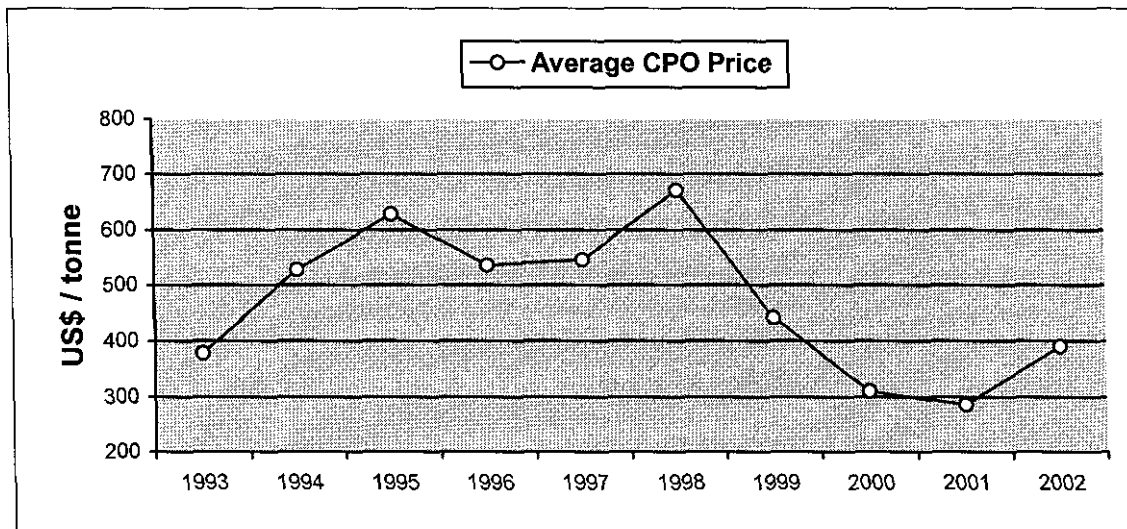
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The mill structure was erected in 1998 with a single production line but was designed to permit later installation of a second line. Work was initiated in the last quarter of 2002 on installation of this second production line which will have a rated throughput of 40 tonnes per hour. It is anticipated that the second line will be brought into operation in July 2003 so as to meet the higher cropping levels anticipated in the five peak cropping months of 2003. With the second line installed, the enhanced milling capacity of 80 tonnes per hour is expected to be sufficient to process all future FFB production from the existing planted hectareage.

### Sales

Substantially all production was again sold in the local Indonesian market during 2002 with the first export sale of CPO being made in December. The production levels in the last quarter of 2002 for the first time provided sufficient volume to support an export sale programme and arrangements are now being put in place to make regular export shipments of both crude palm oil and kernel. Prices realised in local markets during 2002 were broadly equivalent to those available in the export market although, looking forward, it is anticipated that current efforts to improve the logistics of export sales will lead to export sales returning better prices for both CPO and palm kernels than are available in the local market.

The following graph shows the movement in the average price of CPO (based on spot prices per tonne CIF Rotterdam) over the past 10 years as derived from prices published by Oil World:



CIF Rotterdam CPO prices improved throughout 2002 from a level of US\$ 330 per tonne at the outset to a level of US\$ 460 in December. Underlying this improvement was the belief (according to Oil World) that growth in the annual production of oils and fats was, in the immediate future, likely to be significantly below that of recent years while annual demand growth, although somewhat lower than the historic three year average of 4.5 per cent per annum, was nevertheless likely to be sufficient to result in a material reduction of world stocks of oils and fats.

There was some decline in CIF Rotterdam CPO prices during March 2003 but the present level stands at US\$432.50 per tonne. There are indications that the decline was caused by extraneous factors, such as the war in Iraq, and that with world stocks of oils and fats still expected to remain at their present historically low levels, reasonable prices can be expected

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for the remainder of 2003. REA Kaltim has in place forward sales covering most of its projected CPO production until end June 2003.

During 2002 and to-date in 2003, the Indonesian export tax on CPO has remained unchanged at a level of US\$ 4.80 per tonne.

### **Operations**

2002 saw lower levels of rainfall on all estates, particularly in the second half of the year as a result of an El Nino event. As a result, moisture deficits were recorded on some estates in the second half of the year.

Again, no planting took place during the year. With the increasing crops that the existing developed areas are yielding and the cash flows that can be expected if CPO prices remain at or around current levels, REA Kaltim intends to recommence extension planting in 2003 at an initial annual rate of 3,000 hectares and is aiming, from 2005, progressively to increase that rate with a view to completing the planting of the designated nucleus area of 50,000 hectares (including the 13,200 hectares already developed) by the end of 2010. Such further expansion will, however, involve a series of discrete annual decisions as to the area to be planted in each forthcoming year and planned plantings may be scaled back or postponed in the light of prevailing circumstances.

Considerable further work was undertaken during the year on upgrading the road systems within the estates and the upgrading of all main road systems was completed by the end of the year. Upgrading of the estate collection roads was 66 per cent complete at the end of the year with the balance of this programme to be completed in 2003. The upgrading involves the application of stone sourced from quarries located within the estates. Subsequent grading and compaction of these roads produces the all weather surface necessary to ensure that FFB can reliably be transported from the estates to the factory in times of high rainfall.

The standard of field upkeep continued to improve throughout the year and it is anticipated that the resultant improvement in field conditions will lead to higher productivity and reduced operating costs going forward. Harvesting performance during the year was also considered satisfactory. Harvesting of crop at the correct ripeness standard contributed significantly to the high oil extraction rate achieved by the oil mill.

Emphasis continues to be placed on welfare, estate amenities and remuneration structures in order to promote a productive and stable workforce. With the operations maturing, training remains an important focus for the management team in its efforts to establish best practice throughout REA Kaltim's operations. Regular training programmes targeted at all levels of management are run as part of the human resource development function. The recommencement of extension planting in 2003 will bring with it the need to enlarge REA Kaltim's management team and an annual recruitment programme for graduates with agricultural qualifications has restarted. These graduates will join the cadet training programme and those successfully completing this twelve month programme will be offered permanent appointments as assistant managers.

Whilst REA Kaltim does have employees from outside East Kalimantan, care has always been taken to give priority to applications for employment from members of the local population. The East Kalimantan project has been a source of increased prosperity to surrounding villages and REA Kaltim has good relations with those villages. REA Kaltim has made good progress since 2001 in assisting the surrounding villages in establishing their own smallholdings of oil palm and it is hoped that this, together with other initiatives to encourage local farmers in the

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## Review of operations *continued*

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production of foodstuffs, will assist in the continued maintenance of harmonious relationships.

The village co-operative smallholder scheme at present totals 258 hectares, based on nine local villages. Unfortunately, the smallholder planting programme was held up in 2002 by the dry conditions and 125 hectares of the 258 hectares remained to be planted at year end. A further 300 hectares of smallholder planting is presently planned for 2003/04. Within the smallholder scheme, each farmer cultivates oil palm on his own two hectare plot of land and REA Kaltim supplies the farmer with fertiliser inputs and technical advice. In due course, each scheme farmer will sell his FFB production to REA Kaltim for processing and REA Kaltim will, on an agreed basis, recover from the sale proceeds the costs incurred by it in supporting the establishment of the farmer's smallholding. The provision of some local government funding for the smallholder scheme has been a most welcome development during 2002 and REA Kaltim hopes to be able to procure further government financial support for the scheme in the future.

REA Kaltim continues to follow the environmental policies that it established following a detailed environmental impact assessment conducted in 1995. Designated conservation areas were established within the plantation during its development and, with the exception of one area that was destroyed by a fire during the 1997/98 El Nino drought, these continue to be maintained.

The estate operations are supported by a tank farm adjacent to the port of Samarinda which comprises a berthing jetty for vessels of up to 6,000 tonnes and onshore facilities for the storage and handling of CPO, palm kernels and fertilisers. Installed CPO storage capacity is currently 8,000 tonnes in four 2,000 tonne tanks and this will be expanded by the addition of further tanks as CPO throughput increases. CPO and palm kernels are moved downstream from the estates to the tank terminal in river barges and bulk inputs are then carried upstream in the same barges on the return trip upriver. REA Kaltim owns and operates one barge with a carrying capacity of 800 tonnes of CPO and supplements this by hiring additional barges that are owned and operated by contractors. It is intended that further barges will be purchased in 2003 to reduce reliance on contractor barges which are proving costly.

The logistics of the movement of REA Kaltim's inputs and outputs are being progressively refined as volumes continue to grow. In 2002, the cost of such logistics was adversely affected by low river levels and the need from time to time to operate barges from a point some 70 kilometres downstream of the normal loading dock located adjacent to the oil mill. With logistic improvements now in hand, it is hoped that any future recurrence of low river levels will have a lesser impact on handling costs.

### **The Indonesian environment**

REA Kaltim's operations have continued to run without disturbance during the year. The province of East Kalimantan, which enjoys a large natural resource base, low population and full employment, remains stable and prosperous. The influence of the regional autonomy legislation in Indonesia is resulting in increasing evidence of significant new investment within the province in roads and other infrastructure. Of particular interest is the start of work on the construction of a major bridge over the Mahakam river which is expected to provide road access from Samarinda (the capital of East Kalimantan) to the REA Kaltim estates in 2004.

The Indonesian domestic economy is now expanding modestly but issues related to external sovereign and corporate debt, the national budget and internal security continue to cause concern. The Indonesian political climate appears to have stabilised somewhat and there is encouraging evidence of a functioning democratically elected parliament. Political and economic uncertainty, however, continue to create an environment in which international

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investment confidence in Indonesia remains low although it is encouraging to note that the Indonesian rupiah firmed slightly against the US dollar during the course of 2002.

Rationally, Indonesia's economic policies should include the encouragement of those dollar earning export industries which have natural competitive advantage in the international markets in which they operate. The country has enormous reserves of natural resources in the form of oil, natural gas, coal, minerals and timber. With a plentiful supply of land and labour, agriculture can be a major foreign currency earner. The Indonesian oil palm industry continues to have significant competitive advantages over its Malaysian counterpart and over producers of those vegetable oils derived from the annual oilseed crops. Moreover, oil palm growers in both Indonesia and Malaysia are particularly well placed to take advantage of the increasing Chinese demand for vegetable oil that is being fuelled by economic growth in China.

#### **Financing to date**

The East Kalimantan project was initiated in 1989 and its initial development phase spanned a period of over twelve years. Throughout that period, the project required funding. During the early years of the project, the procurement of the necessary funding proved relatively straightforward. Equity and mezzanine finance were supplied by the company and other investors through Makassar and these were augmented by bank finance raised locally in Indonesia. However, the 1997 economic destabilisation of many parts of South East Asia and the subsequent political destabilisation in Indonesia caused much of the Indonesian banking industry to become insolvent. This meant that, for a time, it was virtually impossible to raise debt finance for investment in Indonesia from conventional financing sources and the project was forced to rely on equity and equity related funding.

Much of such funding was provided by, or with financial support from, the company and entities associated with the Mr M E Zukerman ("the MEZ group") (equity investors in Makassar with a combined shareholding formerly equal to that of the company). However, towards the end of 2000 and running into the first half of 2001, the continuing need for capital to fund the East Kalimantan project was accompanied by the negative trading factors of a slower than expected build up in crops from the project and a fall in crude palm oil prices to a low of under US\$ 250 per tonne. Concurrently, difficulties developed in the relationship between the company and the MEZ group. Efforts were made to reconcile the differences that had arisen, including an agreement in February 2001 that REA Kaltim should suspend all debt service and seek more favourable terms from its lenders, but those efforts failed.

Following such failure, in October 2001, on the requisition of the company, additional directors were appointed to the board of directors of Makassar such that a majority of that board comprised directors of the company. Just ahead of that appointment, but after notice of the necessary extraordinary general meeting of Makassar had been served on shareholders of Makassar, the MEZ group initiated legal proceedings in New York against the company and two of its directors, Richard Robinow and John Oakley.

Since those developments, the company has concentrated first and foremost on assuring the solvency and future prospects of Makassar and REA Kaltim. To that end, in April 2002, the company acquired the whole of the issued ordinary share capital of Makassar Participations plc ("MP") which, immediately prior to its acquisition by the company, had acquired all of the issued shares of Makassar other than those owned by the company and the MEZ group. This resulted in the company controlling 51 per cent of the issued ordinary share capital and 73 per cent of the issued voting share capital of Makassar. Concurrently with the acquisition of MP, the company made an underwritten open offer of 4 per cent convertible loan stock 2012 to then holders of its issued ordinary shares and warrants so as to raise, on completion of that offer in May 2002, the sum of £3.8 million (before expenses).

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## Review of operations *continued*

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With the monies raised from the April 2002 open offer, the company and MP supported a rights issue by Makassar. The MEZ group did not take up its rights pursuant to the Makassar rights issue. In consequence, the combined interests of the company and MP in the capital of Makassar increased to their current levels of 79 per cent of the issued ordinary share capital and 84 per cent of the issued voting share capital. Makassar then applied the monies raised by its rights issue in supporting REA Kaltim. This has permitted REA Kaltim to complete restructuring negotiations with its Indonesian bankers leading to the recent signature of formal rescheduling agreements with a sufficient number of the bankers to ensure that, in relation to the REA Kaltim Indonesian bank borrowings totalling \$29.5 million, no event of default can now be declared in respect of events that arose prior to execution of the rescheduling agreements.

In the meanwhile, discussions have continued between REA Kaltim and its only other bank lender, Commerzbank (South East Asia) Ltd ("Commerzbank"), for the rescheduling, on terms that are consistent with the rescheduling agreements reached between REA Kaltim and its Indonesian bankers, of US\$ 11 million owed by REA Kaltim to Commerzbank. The US\$ 11 million in question comprises two components, each of \$5.5 million: tranche A, which was originally supported by a guarantee given by a member of the MEZ group ("the MEZ guarantee") and tranche B in which the company holds a 100 per cent cash participation. Because such cash participation means that the Commerzbank tranche B loan is effectively an intra-group balance, the discussions with Commerzbank have concentrated principally on the Commerzbank tranche A loan.

A conditional agreement on rescheduling of the Commerzbank tranche A loan was in fact reached between Commerzbank and REA Kaltim during the course of 2002. Satisfaction of the conditions of such agreement has been complicated by the refusal of the MEZ group to agree to the release of the MEZ guarantee. This is notwithstanding that, in May 2001, the MEZ group failed to meet a call on the MEZ guarantee and commenced proceedings in New York against Commerzbank seeking a declaratory judgement that Commerzbank had no right to accelerate the MEZ guarantee on the basis of a default on the Commerzbank tranche B loan (although REA Kaltim has received legal advice that the default in question, which resulted from REA Kaltim's failure to pay interest on the Commerzbank tranche B loan following its decision to suspend all debt service, did cause a cross-default under the Commerzbank tranche A loan). Accordingly, REA Kaltim is now seeking to renegotiate the conditional agreement with Commerzbank onto a basis that will overcome this complication.

Of the total current indebtedness of the group substantially the whole (other than the 4 per cent convertible loan stock and intra-group indebtedness) is indebtedness of REA Kaltim. That indebtedness (excluding balances owed to, or backed by cash collateral from, other members of the group) amounts to \$43.175 million and is made up of the monies owed to REA Kaltim's Indonesian bankers and the Commerzbank tranche A loan (as both referred to above), together with a balance of \$8.175 million owed to the MEZ group ("the MEZ loan").

In October 2002, REA Kaltim submitted proposals to the MEZ group for the rescheduling of the MEZ loan on a basis consistent with that agreed with its Indonesian bankers. Those proposals were declined by the MEZ group and the MEZ group instead demanded immediate repayment of the loan and has threatened bankruptcy proceedings against REA Kaltim if such repayment is not made. REA Kaltim has been advised that were the MEZ group to implement that threat it would be open to REA Kaltim to seek a suspension of payments under the authority of the Indonesian courts and to submit a composition plan which, if approved by the requisite majority of unsecured lenders (which the directors believe could be procured), would be binding on all lenders including the MEZ group.

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The fact that the negotiations for the rescheduling of the Commerzbank tranche A loan have not yet resulted in an unconditional legally binding agreement and the further fact that REA Kaltim faces a demand for immediate repayment of the MEZ loan pose obvious risks for the company. In order to reduce those risks, the directors concluded in the early part of 2003 that it would be prudent to reinforce further the financial resources of the group by raising additional working capital by an equity issue. That issue was made by way of a placing and open offer to holders of existing ordinary shares, 4 per cent convertible loan stock and warrants of the company and was completed in March 2003, raising some £3.4 million (before expenses). Although significant risks remain, with these proceeds now in hand and with the knowledge that the group's business is continuing to develop in accordance with expectations, the directors are optimistic that the remaining financing uncertainties affecting the group can be satisfactorily resolved.

#### **Litigation**

As noted above, the MEZ group has brought legal proceedings in New York against the company and two of its directors, Richard Robinow and John Oakley ("the defendants"). Those proceedings assert claims for fraud, fraudulent inducement, breach of contract, promissory estoppel and tortious interference in relation to an alleged oral agreement by the company in March 1998 to cause REA Kaltim and / or Makassar to pay a return of 30 per cent per annum on the MEZ loan and the Commerzbank tranche A loan (in the latter case on terms that the excess of such return over the amount payable to Commerzbank would accrue to the MEZ group).

As the company entered into no such agreement as the MEZ group alleges, the defendants, on the basis of legal advice received, filed a motion to have the MEZ group's claims dismissed in their entirety. A New York magistrate judge (to whom the motion for dismissal was referred) recommended that, save for one minor component of one claim for fraud, all claims for fraud, fraudulent inducement and tortious interference should be dismissed but that the remaining claims, which are all contract related, should proceed (on the grounds that such claims could not be dismissed without investigation of the factual background which is not possible on a motion for dismissal). The MEZ group has objected to the magistrate's recommendations as respects most of the claims recommended for dismissal and the defendants have objected as respects the magistrate's recommendation to retain the minor component of one claim for fraud. A final ruling on these matters is still awaited.

Following the MEZ group's threat of bankruptcy proceedings against REA Kaltim, there have been discussions between certain creditors of REA Kaltim and the MEZ group. These have led to a proposal that Jakarta Initiative Task Force, an Indonesian government body established with the support of the International Monetary Fund to assist in the restructuring of Indonesian private sector delinquent debt, should mediate in the dispute between the company and the MEZ group. It is not yet clear how such mediation will be organised but the directors certainly welcome any process that could result in a total resolution of the position as between the group and the MEZ group. Any such resolution will, however, have to be on economically defensible terms that reflect the reality of the MEZ group's present rights in respects of its interests in the East Kalimantan project and give no weight to claims that are wholly without foundation.

If a satisfactory negotiated settlement cannot be achieved, the directors intend to continue to defend vigorously the company and its directors against, and protect the commercial interests of the company in the face of, the litigation claims of the MEZ group.

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## Review of operations *continued*

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### **Prospects**

Looking forward to 2003, total revenue costs in US dollar terms are not expected to be materially higher than in 2002. Accordingly, with palm product output projected to increase further, unit costs of production for 2003 should be lower than in 2002. That consideration, coupled with the current level of the crude palm oil price provides a basis for some optimism regarding the group's 2003 results although the actual results achieved will, inevitably, be highly dependent upon the level of crop harvested and upon the average price realised for the group's palm product output over the year as a whole and not simply on the price levels now being achieved.

Beyond 2003, the likelihood of further significant increases in cropping levels encourages the hope of an increasing cash flow and returns to shareholders that will justify the ten year gestation period that the East Kalimantan project will have involved.

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# Directors' report

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The directors present their annual report concerning the affairs of the group, together with the financial statements and auditors' report for the year ended 31 December 2002.

## Principal activities and business review

The company acts as a holding company. At 31 December 2002 the principal business of the group was the cultivation of oil palms in the province of East Kalimantan.

The activities and future development of the group are covered in the accompanying chairman's statement and review of operations.

## Results

The results are presented in the profit and loss account and segment information is given in the notes to the financial statements.

## Payment of suppliers

It is the company's policy to establish appropriate terms and conditions for dealings with suppliers and to comply with such terms and conditions. As a holding company the company does not have trade creditors.

## Dividends

The preference dividends due on 30 June and 31 December 2002 were not paid.

No ordinary dividend was declared for the year ended 31 December 2001 and no dividend is proposed on the ordinary shares for the year ended 31 December 2002.

## Substantial shareholdings

The register maintained by the company pursuant to section 211 of the Companies Act 1985 shows the following interests in the ordinary shares of the company at the date of this report

		Per cent
Emba Holdings Limited	7,033,435	40.5
Prudential plc	1,900,695	10.9
J G Bartholomew	522,219	3.0
J R M Keatley	520,980	3.0

Emba Holdings Limited is controlled by Mr R M Robinow together with members of his family. By deeds dated 24 November 1998 and 10 April 2001, Emba Holdings Limited has undertaken to the company that it will not undertake any activity in conflict with the company that may render the company unsuitable for listing.

## Directors

The present directors are listed on page 1. All the directors, other than Mr C L Lim who was appointed on 27 August 2002, served throughout the year under review.

The directors retiring by rotation are Mr R M Robinow and Mr J M Green-Armytage who, being eligible, offer themselves for re-election. In addition Mr C L Lim, having been appointed in the year, offers himself for re-election.

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## Directors' report *continued*

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### **Directors' interests**

Details of directors' interests are shown in the directors' remuneration report.

### **Changes in authorised and issued share capital**

The following changes in the share capital of the company took place in the year:

- (i) on 26 April 2002, 300,077 ordinary shares of 25p each were issued credited as fully paid in consideration for the acquisition of 2,753 preference shares in Makassar Participation plc; and
- (ii) on 22 May 2002, the authorised capital was increased by £2,000,000.

### **Power to issue share capital**

At the extraordinary general meeting held on 22 May 2002, shareholders authorised the board under the provisions of section 80 of the Companies Act 1985 to allot relevant securities within specified limits. A replacement of this authority is being sought at the forthcoming annual general meeting convened for 26 June 2003. Such authority will be limited to £2,445,000 nominal of share capital representing 24 per cent of the total share capital in issue at the date of this report, and will be split to provide for the allotment of (i) ordinary shares up to an aggregate nominal amount of £1,445,000 representing 33 per cent of the total ordinary share capital in issue at the date of this report and (ii) 9 per cent cumulative preference shares up to an aggregate nominal amount of £1,000,000. The authority will terminate on 25 June 2008. The directors have no present intention of exercising the authority.

A fresh authority is also being sought under the provisions of section 95 of the Companies Act 1985 to enable the board to make a rights issue or open offer to existing ordinary shareholders or existing ordinary shareholders and holders of warrants and convertible loan stock without being obliged to comply with certain technical requirements of the Companies Act 1985 which can create problems with regard to fractions and overseas shareholders. In addition the authority will give the board power to make issues of shares for cash other than by way of rights to existing ordinary shareholders up to a maximum aggregate nominal amount of £326,000 representing 5 per cent of (i) the issued ordinary share capital and (ii) the ordinary shares that would be issued upon exercise in full of the subscription and conversion rights attaching to the warrants and convertible loan stock all at the date of this report. The section 95 authority will terminate on the date of the annual general meeting to be held in 2004, which will be no later than 15 months from the passing of the resolution granting the authority.

### **Power to purchase own warrants**

At the annual general meeting held on 22 May 2002, shareholders authorised the company to purchase up to 242,500 warrants of the company, such authority to expire at the next annual general meeting of the company. A replacement of this authority is being sought at the forthcoming annual general meeting. The directors intend to exercise the proposed authority, if granted, only to the extent of the normal availability of the warrants through the London Stock Exchange and within the constraints of the company's internal cash flow. The maximum number of warrants that the company will be authorised to purchase under the authority will be 242,500 warrants representing 14.9 per cent of the warrants in issue at the date of this report. The authority will terminate on the date of the annual general meeting to be held in 2004.

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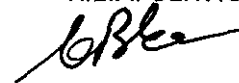
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**Auditors**

Deloitte & Touche, who were appointed by the directors during the year to fill the casual vacancy caused by the resignation of Arthur Andersen, have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting, special notice having been given.

23 May 2003

*By order of the board*  
R.E.A. SERVICES LIMITED  
*Secretaries*



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## Corporate governance

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The company is committed to the principles of corporate governance as set out in the Combined Code on Corporate Governance ("the Combined Code"). This statement describes how the company has applied the Principles of Good Governance set out in section 1 of the Combined Code.

### **Directors and board meetings**

The composition of the board of the company is set out on page 1 and comprises a balance of executive and non-executive directors (including independent non-executive directors). The offices of chairman and managing director are held by different individuals. At the end of 2001, one executive director retired and was not replaced. During 2002, an additional non-executive director was appointed. All directors are equally accountable for the proper stewardship of the company's affairs. Directors have free access to the advice and services of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company when circumstances so require.

Because of the constraints imposed by the fact that two of the non-executive directors are based in Singapore, regular board meetings are held twice a year. Other board meetings are held as necessary to consider corporate and operational matters. Full quarterly reports are issued to all the directors for their review and comment. These are augmented by annual budgets and positional papers on matters of a non routine nature. The board has a schedule of matters that are reserved for decision by it. Such matters include the appointment and removal of the company secretary.

Appointments to the board are considered by a nomination committee which is formally constituted with written terms of reference. Recommendations from the committee are submitted for approval to the full board. The present composition of the nomination committee is shown on page 1.

One third of the directors retire by rotation each year and may submit themselves for re-election. This has the effect that each director is subject to re-election at least once every three years.

In view of the specialised nature of the group's operations and the relevant experience of the directors it is not considered necessary for training to be provided to existing directors.

### **Directors' remuneration**

Details of directors' remuneration, the basis upon which such remuneration is determined and compliance with the Combined Code as respects such remuneration is set out in the directors' remuneration report.

### **Relations with shareholders**

The company seeks to provide, through its annual report and accounts, interim report and such other circular letters to shareholders as circumstances may require, balanced information on the operational activities and financial affairs of the group. Beyond such written communications, the directors regard the company's annual general meeting as the principal opportunity for communication between the company and its private shareholders. In addition to answering questions from shareholders within the formal context of the meeting, directors are available to talk on an informal basis to shareholders after the meeting has been concluded. At least twenty working days' notice of the annual general meeting is given to shareholders.

Within the limits imposed by considerations of confidentiality, the company endeavours to maintain constructive relations with its institutional shareholders based on periodic meetings and a mutual understanding of objectives.

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### **Audit and internal control**

The accompanying chairman's statement and review of operations, when read in conjunction with the financial statements and notes, the directors' report and the directors' remuneration report, are designed to present a balanced and understandable assessment of the group's position and prospects. The directors' responsibilities for the preparation of the financial statements are detailed in the accompanying separate statement on that subject.

The directors annually conduct a review of the effectiveness of the group's system of internal control including financial, operational and compliance controls and risk management in accordance with the requirements of the Combined Code and the Turnbull guidance. In addition, there is an ongoing process of identifying and evaluating the significant risks faced by the group. This has been in place for the year under review and up to the date of the approval of the annual report and accounts; it is regularly reviewed by the board and is in accordance with the Turnbull guidance.

The last full review of the effectiveness of the group's system of internal control was conducted by the directors in September 2002. Having undertaken the September 2002 review, the board is satisfied that systems remain in place to safeguard the assets and business of the group on the basis outlined in this report. The board has considered the need to have an internal audit function but due to the small size of the group has agreed that this would not be appropriate.

The directors acknowledge their responsibility for ensuring that the company has a sound system of internal control including financial, operational, compliance and risk management in place to safeguard shareholders' investment and the company's assets and for reviewing its effectiveness. The purpose of such system is to manage and control risk rather than to eliminate it and can provide only reasonable and not absolute assurance against material misstatement or loss.

The group has an established system of management hierarchy which is designed to delegate the day-to-day responsibility for specific departmental functions within each working location, including financial, operational and compliance controls and risk management, to a number of senior managers, reporting to a director with overall responsibility for that particular working location.

Each working location reports to the board on a regular basis by way of the circulation of progress reports, management reports and management accounts. Local management are required to seek authority from the board in respect of any transaction which is above the limits set within the agreed annual operating plan for that working location, which is other than in the normal course of business, or in respect of any matter that is likely to have a material impact on the operations of the relevant working location.

At least two supervisory visits each year are undertaken to each of the overseas operations by a designated director. Reports of such visits are circulated to the board and reviewed by the full board at the regular board meetings.

Key risks to the success of the group's operations have been identified and, to the extent possible, systems put in place to minimise the impact of such risks. Key risks, together with all the group's procedures of internal control, including internal financial control, are reviewed by the directors on a regular basis and are adapted and improved as necessary.

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## Corporate governance *continued*

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The company has a formally constituted audit committee with written terms of reference. The members of the audit committee are shown on page 1. The duties of the audit committee include responsibility for reviewing the group's financial and other reporting procedures, the scope and results of the audit of the group's accounts and the objectivity of, and level of fees charged by, the auditors.

### **Going concern basis**

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. This statement should be treated as a part of the review of operations.

### **Compliance**

With one limited exception the company complied throughout the year ended 31 December 2002 with the code provisions as set out in section 1 of the Combined Code. The one exception was as regards the composition of the remuneration committee which, rather than comprising three independent non-executive directors, comprised two such directors and Mr R M Robinow, who, although non-executive, by virtue of his involvement in the day-to-day management of the group, and his position as chairman may not be regarded as an independent non-executive director. In view of the significant interest held by Mr Robinow and his family in the ordinary shares of the company, the directors consider that the remuneration committee operates effectively as currently constituted.

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# Directors' remuneration report

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This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations"), which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and also describes how the board has applied the Principles of Good Governance set out in section 1 of the Combined Code on Corporate Governance ("the Combined Code") relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the annual general meeting.

The Regulations require the auditors to report to the company's members on the "auditable part" of the directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). This report has therefore been divided into separate sections covering unaudited information and audited information.

## UNAUDITED INFORMATION

### Remuneration committee

The members of the remuneration committee are Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. Mr Letts and Mr Keatley are both independent non-executive directors. Mr Robinow is a non executive director but may not, by virtue of his involvement in the day-to-day management of the group and his position as chairman, be regarded as an independent non-executive director. In view of the significant interest held by Mr Robinow and his family in the ordinary shares of the company, the directors consider that the remuneration committee operates effectively as currently constituted. Any matter concerning Mr Robinow is discussed without Mr Robinow being present.

### Remuneration Policy

In framing its policy on performance related remuneration the committee follows the provisions of schedule A to the Combined Code.

The committee sets the remuneration and benefits of each executive director of the company. In so doing, it considers the achievement of each individual in attaining the objectives set for that individual and draws on data of the remuneration of others performing similar functions in similarly sized organisations, but does not use independent consultants. The key objective of the remuneration policy is to attract, retain, motivate and fairly reward executive directors of a high calibre, while ensuring that the remuneration of each individual executive director is consistent with the best interests of the company and its shareholders.

The committee considers all proposals for executive directors to hold outside directorships. Such directorships are normally permitted only if considered to be of value to the group and on terms that any remuneration payable will be accounted for to the group.

### Basis of remuneration

The standard remuneration of each executive director comprises a basic pensionable salary and certain benefits-in-kind, comprising a company car and private medical insurance. In addition, executive directors may be paid non-pensionable bonuses. These are awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant year and the contribution to that performance that each director is assessed by the committee as having made. Bonuses do not normally exceed 40 per

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## Directors' remuneration report *continued*

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cent of salary and are paid in cash. There is no separate pension scheme for executive directors but those directors are members of the REA Pension Scheme.

### Service contracts

The company's policy on service contracts is that contracts are for a maximum period of one year at inception and with a notice period of not more than one year and with a maximum termination payment equal to the remuneration for the remaining period of the contract.

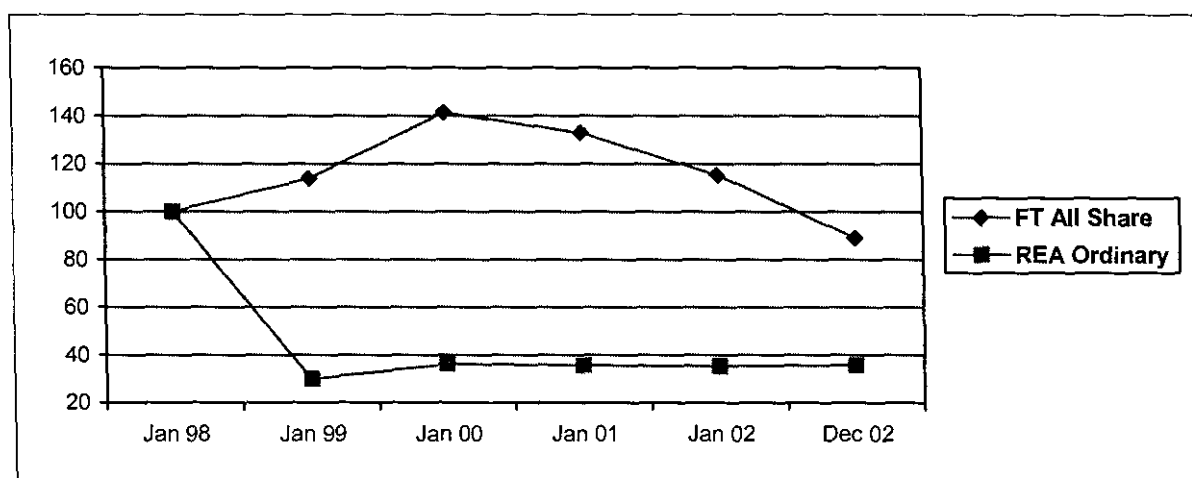
The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years and thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2002 the unexpired term remained as six months. There are no provisions for compensation for early termination save that Mr Oakley would be entitled to a payment in lieu of notice if due notice had not been given.

### Non-executive directors

The remuneration of non-executive directors is determined by the board within the limits set by the articles of association.

### Performance graph

The company was formerly classified under the other industrial/support services sectors, but, following the disposal of most of its industrial, distribution and fibres activities between 1998 and 2001, its main activity has been the production of palm oil, with the result that it now comes under the "farming, fisheries and food manufacturing" classification. Hence direct comparison against a particular section of the market is not possible over the five year period from 1998 to 2002. Accordingly the following graph compares the performance of the company's ordinary shares (measured by total shareholder return) with that of the FTSE all share index for the period January 1998 to December 2002.



### Directors' interests

The interests of directors, together with those of members of their immediate families, at 23 May 2003, 31 December 2002 and 1 January 2002 (or date of appointment if later) in the underlisted securities of the company, all of which were beneficial interests, were as follows

	9 per cent cumulative preference shares	Ordinary shares of 25p each	4 per cent convertible loan stock 2012	Warrants
<b>23 May 2003</b>				
R M Robinow	62,144	109,719	10,000	129,648
J M Green-Armytage	2,455	55,861	-	21,000
J R M Keatley	1,701	520,980	77,733	-
C L Lim	-	175,000	1,420,572	-
L E C Letts	4,099	75,986	16,392	-
J C Oakley	384	61,633	1,000	-
<b>31 December 2002</b>				
R M Robinow	62,144	95,100	10,000	129,747
J M Green-Armytage	2,455	44,881	-	21,000
J R M Keatley	1,701	443,369	77,733	-
C L Lim	-	150,000	1,420,572	-
L E C Letts	4,099	60,713	16,392	-
J C Oakley	384	52,510	1,000	-
<b>1 January 2002 (or date of appointment)</b>				
R M Robinow	62,144	97,499	-	129,747
J M Green-Armytage	2,455	44,881	-	21,000
J R M Keatley	1,701	443,369	-	-
C L Lim ( <i>27 August 2002</i> )	-	-	1,420,572	-
L E C Letts	4,099	60,713	-	-
J C Oakley	384	52,510	-	-

### AUDITED INFORMATION

#### Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2002 (with comparative totals for 2001)

	Salary and fees £'000	Bonus £'000	Benefits £'000	2002 total £'000	2001 total £'000
R M Robinow (chairman)	3	-	8	11	7
N E Newby ( <i>retired 31 December 2001</i> )	-	-	-	-	195
J C Oakley	153	44	14	211	157
J M Green-Armytage	-	-	-	-	-
J R M Keatley	2	-	-	2	2
L E C Letts	3	-	-	3	-
C L Lim	-	-	-	-	-
				<u>227</u>	<u>361</u>

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## Directors' remuneration report *continued*

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Mr Robinow, Mr Green-Armytage and Mr Letts were interested in service arrangements with three other companies whereby aggregate amounts of £169,000 (2001 £127,000) in respect of Mr Robinow, £1,000 (2001 £1,000) in respect of Mr Green-Armytage and £9,000 (2001 £nil) in respect of Mr Letts were payable in respect of the year.

### Director's pension entitlement

Mr J C Oakley (who was aged 54 at 31 December 2002) is an ordinary member of the REA Pension Scheme which is a defined benefits scheme of which details are shown in note 14 to the accounts. Pensionable earnings are calculated on basic salary only. Details of the accrued pension are set out below

	£
Increase in accrued pension during the year	6,549
Accrued annual pension at year end	42,350
Pension transfer value at the beginning of the year	411,853
Pension transfer value at the end of the year	508,963
Increase in pension transfer value (less member's contributions) in the year	89,610

### Share options

There were no share options at the beginning of the year and no share options were exercised during the year. On 22 May 2002, Mr J C Oakley was granted an option to acquire one million ordinary shares of 25p each in the company at an exercise price of 45p per share, such option being exercisable between 22 May 2004 and 21 May 2012. There are no performance conditions attaching to the grant of this option as the directors did not consider, in the particular circumstances that the option was granted, that it would be appropriate to impose any such conditions and the grant was specifically approved by shareholders.

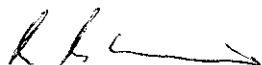
Details of share options for Mr J C Oakley (all resulting from the award of 22 May 2002 and being in respect of ordinary shares) are therefore as follows

At 1 January 2002	-
Granted during the year	1,000,000
Exercised during the year	-
At 31 December 2002	<u>1,000,000</u>
Exercise price	45p
Date from which the option may be exercised	22 May 2004
Date on which the option expires	21 May 2012

The middle market price of the ordinary shares of the company on 31 December 2002 was 62p and the highest and lowest middle market prices of the ordinary shares between 22 May and 31 December 2002 were 67p and 45p respectively.

Approved by the board on 23 May 2003

R M ROBINOW  
Chairman



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## Directors' responsibilities

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The following paragraphs, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out in their report, are intended to distinguish for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

United Kingdom company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the group profit or loss for the financial year.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The directors are required in preparing the financial statements to ensure that the group has used appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates and that all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors have responsibility for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

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# Auditors' report

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## **Independent auditors' report to the shareholders of R.E.A. Holdings plc**

We have audited the financial statements of R.E.A. Holdings plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the statement of accounting policies and the related notes numbered 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report for the above year including the unaudited part of the directors' remuneration report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

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

*Fundamental uncertainties*

In view of the significance of the group's operations in Indonesia, the group continues to be exposed to adverse economic, political and social conditions. In forming our opinion we have considered the adequacy of disclosures made in Note 23 to the financial statements concerning the economic, political and social situation in Indonesia and its effect on the group.

Although exchange rates and other economic indicators were less volatile during the year, it is not possible to determine the effect that social unrest, political change or further deterioration in economic conditions may have on future values of assets, earnings, profitability or cash flows of the group. The financial statements include the effects of these factors so far as can be currently determined and estimated.

The financial statements have been prepared on a going concern basis. There remains a fundamental uncertainty as to the effect on the group's operations of the economic, political and social conditions in Indonesia.

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements in Notes 7 and 23 concerning the default of payment of interest by PT REA Kaltim Plantations on its loans, and the uncertainty over the rescheduling or replacement of these loans.

In view of the significance of these uncertainties we consider that they should be brought to your attention but our opinion is not qualified in this respect.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 December 2002 and of the profit of the group for the year then ended and the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

London  
23 May 2003

DELOITTE & TOUCHE  
Chartered Accountants and Registered Auditors

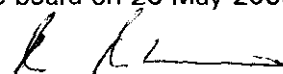
# Consolidated balance sheet

## 31 December 2002

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Tangible fixed assets	3	49,603	50,304
Investments	4	-	507
		<u>49,603</u>	<u>50,811</u>
<b>Current assets</b>			
Stocks	5	857	1,143
Debtors	6	4,544	2,892
Cash		5,156	5,398
		<u>10,557</u>	<u>9,433</u>
<b>Creditors: falling due within one year</b>	7	(13,765)	(39,373)
<b>Net current liabilities</b>		<u>(3,208)</u>	<u>(29,940)</u>
<b>Total assets less current liabilities</b>		46,395	20,871
<b>Creditors: falling due after more than one year</b>			
Convertible debt	8	(3,419)	-
Other creditors	8	(21,134)	(1,871)
<b>Net assets</b>		<u>21,842</u>	<u>19,000</u>
<b>Capital and reserves</b>			
Called up share capital	9	8,887	8,812
Share premium account	9	1,233	1,178
Capital redemption reserve	9	3,240	3,240
Warrants	9	1,218	1,218
Revaluation reserve	9	(532)	(2,316)
Other reserve	9	768	-
Profit and loss account	9	2,454	2,465
<b>Shareholders' funds*</b>	9	<u>17,268</u>	<u>14,597</u>
Minority interests**		4,574	4,403
<b>Total capital employed</b>		<u>21,842</u>	<u>19,000</u>

Approved by the board on 23 May 2003

R M ROBINOW  
Chairman



\* Shareholders' funds comprise equity interest of £11,563,000 (2001 £8,892,000) and non-equity interest of £5,705,000 (2001 £5,705,000).

\*\* Minority interests comprise equity interest of £2,010,000 (2001 £4,000) and non-equity interest of £2,564,000 (2001 £4,399,000).

The accompanying notes are an integral part of this consolidated balance sheet.

## Consolidated profit and loss account for the year ended 31 December 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
<b>Turnover</b>					
Continuing	2		12,831		1,326
Discontinued	2		-		105
			12,831		1,431
Cost of sales	11		(7,897)		(403)
<b>Gross profit</b>	11		4,934		1,028
Other operating income and expenses	11		(2,571)		(1,223)
			2,363		(241)
Continuing			-		46
Discontinued			-		-
<b>Group operating profit/(loss)</b>			2,363		(195)
Share of operating (loss)/profit of associates					
Continuing			-		(29)
Discontinued			-		151
Disposal of assets and investments	12		(326)		448
Interest receivable and similar income			88		1,131
Interest payable – associates			-		(807)
Interest payable – group	12		(669)		(272)
<b>Profit on ordinary activities before taxation</b>	12		1,456		427
Tax on profit on ordinary activities	17		(49)		(147)
<b>Profit on ordinary activities after taxation</b>			1,407		280
Minority interests (including non-equity interests)	12		(725)		(59)
<b>Profit for the financial year</b>			682		221
Non-equity dividends	18		(512)		(512)
<b>Retained profit/(loss) for the year</b>	9		170		(291)
Earnings/(loss) per ordinary share	12				
- basic			1.4p		(2.6)p
- fully diluted			1.3p		(2.6)p

A statement of movement in reserves is given in the accompanying notes which are an integral part of this consolidated profit and loss account.

## Statement of consolidated total recognised gains and losses and note of consolidated historical cost profits and losses for the year ended 31 December 2002

### Recognised gains and losses

	2002 £'000	2001 £'000
Profit for the financial year	682	221
Currency translation adjustments	(1,611)	234
Revaluation adjustments	3,395	(2,488)
	2,466	(2,033)

### Note of historical cost profits and losses

	2002 £'000	2001 £'000
Reported profit on ordinary activities before taxation	1,456	427
Realisation of revaluation losses of previous years	-	(710)
Historical cost profit/(loss) on ordinary activities before taxation	1,456	(283)
Tax on historical profit/(loss) on ordinary activities	(49)	(147)
Historical cost profit/(loss) on ordinary activities after taxation	1,407	(430)
Minority interests	(725)	(59)
Historical cost profit/(loss) for the financial year	682	(489)
Non-equity dividends	(512)	(512)
Retained historical cost profit/(loss) for the year	170	(1,001)

The accompanying notes are an integral part of these statements.

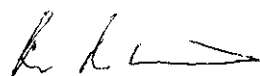
# Company balance sheet

## 31 December 2002

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Investments	4	<u>14,933</u>	<u>3,874</u>
<b>Current assets</b>			
Debtors	6	6,946	8,816
Cash		<u>890</u>	<u>4,635</u>
		7,836	13,451
<b>Creditors: falling due within one year</b>	7	<u>(2,029)</u>	<u>(2,728)</u>
<b>Net current assets</b>		<u>5,807</u>	<u>10,723</u>
<b>Total assets less current liabilities</b>		20,740	14,597
<b>Creditors: falling due after more than one year</b>			
Convertible debt		(3,419)	-
Other creditors		(53)	-
<b>Net assets</b>		<u>17,268</u>	<u>14,597</u>
<b>Capital and reserves</b>			
Called up share capital	9	8,887	8,812
Share premium account	9	1,233	1,178
Capital redemption reserve	9	3,240	3,240
Warrants	9	1,218	1,218
Revaluation reserve	9	(278)	(3,741)
Other reserve	9	768	-
Profit and loss account	9	2,200	3,890
<b>Shareholders' funds*</b>	9	<u>17,268</u>	<u>14,597</u>

Approved by the board on 23 May 2003

R M ROBINOW  
Chairman



\* Shareholders' funds comprises equity interest of £11,563,000 (2001 £8,892,000) and non-equity interest of £5,705,000 (2001 £5,705,000).

The accompanying notes are an integral part of this balance sheet.

## Consolidated cash flows for the year ended 31 December 2002

	2002 £'000	2001 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	<u>1,035</u>	<u>(2,522)</u>
<b>Returns on investments and servicing of finance</b>		
Interest received	88	1,131
Interest paid (see Note 12)	(669)	(272)
Dividends paid to preference shareholders	-	(256)
	<u>(581)</u>	<u>603</u>
<b>Taxation</b>	<u>(101)</u>	<u>(59)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,154)	(664)
Sale of tangible fixed assets	60	2,146
Sale of investments	-	406
	<u>(2,094)</u>	<u>1,888</u>
<b>Acquisitions and disposals</b>		
Purchase of further shares in subsidiary companies	(560)	-
Sale of subsidiaries	-	3,145
Adjustment of selling price of interests in subsidiaries	-	100
	<u>(560)</u>	<u>3,245</u>
<b>Equity dividends paid</b>	<u>-</u>	<u>-</u>
<b>Cash (outflow)/inflow before management of liquid resources and financing</b>	<u>(2,301)</u>	<u>3,155</u>
<b>Management of liquid resources</b>	<u>(3,315)</u>	<u>108</u>
<b>Financing</b>		
Issue of convertible loan stock and expenses	3,419	-
Net repayment of debt up to one year	-	(2,699)
Net issue/(repayment) of debt over one year	2,815	(1,064)
Finance lease repayments	(151)	(7)
Share issue and expenses	(5)	1,268
	<u>6,078</u>	<u>(2,502)</u>
<b>Increase in cash</b>	<u>462</u>	<u>761</u>

The accompanying notes are an integral part of this consolidated cash flow statement. Refer to note 19.

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# Accounting policies

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The financial statements have been prepared in accordance with accounting standards applicable in the United Kingdom. The principal accounting policies have been applied consistently with the exception of Financial Reporting Standard No. 19 "Deferred Taxation" (which has been adopted this year) the impact of which is not material.

## **Basis of accounting**

The accompanying financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets.

## **Basis of consolidation**

The group financial statements consolidate those of the company and its subsidiary companies and undertakings ("subsidiaries"), drawn up to 31 December each year. Unless otherwise stated the acquisition method of accounting has been adopted. Results of subsidiaries acquired or disposed of are consolidated from or to the date on which control passed.

Goodwill arising on the acquisition of subsidiaries and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

## **Tangible fixed assets**

Estates are shown at directors' valuation which is based on periodic external valuation using a seven year crop method.

All development costs on the estates have been capitalised up to the point the estate has been brought into use. This expenditure includes the cost of Indonesian head office, building, equipment and road vehicles, personnel costs and local fees and expenses and related travelling expenses in connection with the development of the project, and the costs of surveys and land fees and general expenses. Applicable interest payable is capitalised.

Tangible fixed assets, except land, are stated at cost or valuation less accumulated depreciation net of any provision for impairment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows

Estates and buildings	20 years
Plant and machinery	5-16 years

Land is stated at cost and is not depreciated.

Plant and machinery are included at cost net of any provision for impairment.

## **Investments**

Associated companies ("associates") are entities in which a consolidated member of the group has a participating interest and over which the group exercises significant influence. Associates are accounted for using the equity method. The group's investments in associated companies are stated at its share of year end net asset values adjusted for a directors' valuation of estates which is based on periodic external valuation. The difference between acquisition cost and the share of underlying net tangible assets is reflected in the profit and loss account and revaluation reserve as appropriate. The consolidated profit and loss account includes the group's share of associated companies profits less losses. There were no associates as at 31 December 2002.

The company's investments in its subsidiaries and associates are stated at its share of year end net asset values, with changes in values being taken to revaluation reserve. Permanent diminutions in value are charged to the profit and loss account. Only dividends received or receivable are credited to the company's profit and loss account.

Other fixed asset investments are stated at cost less any provision for any impairment.

## **Stock**

Stock is stated at the lower of cost and net realisable value.

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## Accounting policies *continued*

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### **Foreign exchange**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

For consolidation purposes, the results of group companies with a functional currency other than sterling are translated using the average exchange rates for the period and the balance sheets are translated using the closing exchange rates at the relevant date. Differences arising on translation of opening net assets and foreign currency loans, to the extent that they relate to investment in overseas operations or hedge the group's investment in such operations, are taken to reserves and are also shown in the statement of recognised gains and losses. All other exchange differences are included in the profit and loss account.

### **Turnover**

Turnover is the total amount receivable by the group in the ordinary course of business for goods supplied and services rendered to third parties net of sales related taxes.

### **Interest**

Interest charges incurred to finance the construction or installation of the property, plant and equipment or the development of immature plantations are capitalised. Capitalisation of the borrowing costs ceases when the construction or installation is substantially complete and the property, plant and equipment are ready for the intended use when the plantations mature.

### **Finance leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

### **Taxation**

Current tax including U.K. corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. No deferred tax has been provided in respect of the revaluation of the estates or property as there is no intention to dispose of them in the foreseeable future. Deferred tax assets are only recognised to the extent that these can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted. Deferred tax not provided for is shown in the notes to the accounts.

### **Pension costs**

For defined benefit schemes, the amount charged to profit and loss account is the estimated regular cost of providing for the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to profit and loss account evenly over the estimated average remaining working life of scheme members.

### **Warrants**

Warrants are stated at the amount of net proceeds after deduction of issue costs. Upon exercise the carrying amount is reclassified as part of the net issue proceeds of the ordinary shares arising from such exercise and no gain or loss is recognised.

# Notes to financial statements

## 1 Corporate transactions

In April 2002, Makassar Participation plc ("MP") became a member of the group. Immediately prior to that, MP had acquired all the preferred shares in Makassar Investments Limited by way of exchange for MP preference shares and all the ordinary shares in Makassar Investments Limited not then owned by the group or interests associated with Mr M E Zukerman by way of exchange for MP ordinary shares. The company acquired some 40 per cent of the MP preference shares and all of the MP ordinary shares in consideration of the issue of, respectively, 300,077 ordinary shares and US\$85,440 loan notes of the company.

In June 2002 Makassar Investments Limited made a rights issue on the basis of 2.6454 units (each comprising one new ordinary share and one warrant) for each existing ordinary share, at a price of \$480 per unit. The company and its subsidiaries subscribed in full for their rights entitlements comprising 11,694 units. Other shareholders did not subscribe for any part of their entitlements. This resulted in the group increasing its equity interest in Makassar Investments Limited to 79.2 per cent.

## 2 Segment information

In the tables below, the group's net assets, turnover and profit before taxation (excluding result of sales of assets) are analysed by geographical area and by business class. The element of continuing turnover and profit before taxation (excluding result of sales of assets) included in total, is separately identified.

Net assets, in the case of the geographical analysis, are allocated to the area where the main operation of a particular activity is carried out and where the majority of that activity's assets are situated. Unallocated items include general group financing and head office costs; financing which is directly attributable to a particular activity has been allocated to that activity.

<i>(a) Net assets</i>	2002 Total £m	2001 <i>Associates</i> £m	2001 <i>Total</i> £m
Net assets - by geographical area			
United Kingdom	(2.8)	-	5.7
Continental Europe	-	-	-
Bangladesh	0.5	-	0.5
Indonesia	23.8	-	12.8
America	-	-	-
Africa	-	-	-
	<u>21.5</u>	<u>-</u>	<u>19.0</u>
Net assets - by business class			
Merchanting	-	-	-
Agriculture	23.6	-	13.3
Unallocated	(2.1)	-	5.7
	<u>21.5</u>	<u>-</u>	<u>19.0</u>

## Notes to financial statements *continued*

<i>(b) Turnover</i>	2002 All continuing £m	2001 <i>Total</i> £m	2001 <i>Of which</i> <i>continuing</i> £m	
Turnover - by geographical area				
United Kingdom	0.2	0.3	0.3	
Indonesia	12.1	0.8	0.8	
Other Asia	0.5	0.1	0.1	
Africa	-	0.2	0.1	
	<u>12.8</u>	<u>1.4</u>	<u>1.3</u>	
Turnover - by geographical area, by origin of transaction				
United Kingdom	0.2	0.7	0.6	
Indonesia (2001 - 1 month only)	12.6	0.7	0.7	
	<u>12.8</u>	<u>1.4</u>	<u>1.3</u>	
Turnover - by business class				
Merchanting	-	0.1	-	
Agriculture (2001 - 1 month only)	12.6	0.7	0.7	
Other activities	0.2	0.6	0.6	
	<u>12.8</u>	<u>1.4</u>	<u>1.3</u>	
 <i>(c) Profit before taxation</i>				
	2002 All continuing £'000	2001 <i>Associates</i> £'000	2001 <i>Total</i> £'000	2001 <i>Of which</i> <i>continuing</i> £'000
Profit - by geographical area, by origin of transaction				
United Kingdom	(380)	-	527	489
Bangladesh	-	35	35	-
Indonesia	2,162	(660)	(523)	(523)
America	-	(56)	(56)	-
Africa	-	(4)	(4)	-
	<u>1,782</u>	<u>(685)</u>	<u>(21)</u>	<u>(34)</u>
Disposal of assets and investments (see note 12)	(326)	-	448	569
	<u>1,456</u>	<u>(685)</u>	<u>427</u>	<u>535</u>
Profit - by business class				
Merchanting	-	-	45	-
Agriculture	2,162	(685)	(548)	(523)
Other activities	-	-	118	125
Unallocated	(380)	-	364	364
	<u>1,782</u>	<u>(685)</u>	<u>(21)</u>	<u>(34)</u>
Disposal of assets and investments (see note 12)	(326)	-	448	569
	<u>1,456</u>	<u>(685)</u>	<u>427</u>	<u>535</u>

### 3 Tangible fixed assets - Consolidated balance sheet

The movement in the year was as follows

	Estates, land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
Beginning of year	46,653	5,967	52,620
Revaluation and foreign exchange	(1,005)	(617)	(1,622)
Additions	1,368	911	2,279
Transfers	164	(142)	22
Disposals	-	(77)	(77)
	<u>47,180</u>	<u>6,042</u>	<u>53,222</u>
Depreciation			
Beginning of year	1,076	1,240	2,316
Revaluation and foreign exchange	(182)	(139)	(321)
Charge	1,193	423	1,616
Transfers	22	-	22
Disposals	-	(14)	(14)
	<u>2,109</u>	<u>1,510</u>	<u>3,619</u>
Net book value			
End of year	<u>45,071</u>	<u>4,532</u>	<u>49,603</u>
Beginning of year	<u>45,577</u>	<u>4,727</u>	<u>50,304</u>

Total interest payable is capitalised based on the ratio of immature estates to mature estates. The percentage of total interest payable capitalised for the year was 9.2 per cent with an average interest rate of 3.5 per cent (2001 64.5 per cent with an average interest rate of 7.0 per cent).

Interest payable capitalised during the year is shown in Note 12. Total interest capitalised to date is £11,005,000 (2001 £10,825,000).

At the year end the net book value of finance leases in plant and machinery included above was £225,000 (2001 £150,000).

The estates were revalued by PT Cakra Hasta Konsultan, an independent external valuer in Indonesia, at 31 December 2002. The valuation is based on a seven year crop method. The valuation takes account of plant and machinery used in connection with the estates.

If the estates had not been revalued the tangible fixed assets would have been included at the following amounts

	2002		2001	
	Estates, land and buildings £'000	Plant and machinery £'000	Estates, land and buildings £'000	Plant and machinery £'000
Cost	40,508	6,042	44,210	5,967
Depreciation	2,109	1,510	1,076	1,240
Net book value	<u>38,399</u>	<u>4,532</u>	<u>43,134</u>	<u>4,727</u>

At 31 December 2002 a revaluation surplus of £6,672,000 (2001 £2,443,000) has been included in tangible fixed assets and has been added to revaluation reserve and minority interests as appropriate. No deferred tax has been provided on this surplus but, if it had been provided, the surplus would have been reduced by £2,002,000 (2001 £733,000).

## Notes to financial statements *continued*

### 4 Investments

#### (a) Consolidated balance sheet

	Original cost £'000	2002 £'000	2001 £'000
Other investments	871	-	507
The movement during the year was			
Beginning of year			£'000
Disposal			507
Revaluation			(507)
			<u>-</u>

In May 2002, shareholders approved the conditional sale of the remaining 25 per cent of Deundi Tea Company Limited for which the company entered into a sale contract on 25 June 2001, conditional upon receiving shareholders' consent, for deferred consideration of 2.5 times the average profits after taxation of Deundi Tea Company Limited for the seven years ending 31 December 2007.

#### (b) Company balance sheet

	Original cost £'000	2002 £'000	2001 £'000
Shares in subsidiaries	5,759	5,481	3,367
Loans to subsidiaries	9,452	9,452	-
Other investments	-	-	507
	<u>15,211</u>	<u>14,933</u>	<u>3,874</u>

The movement during the year was

	£'000
Beginning of year	3,874
Additions - subsidiaries	767
Disposals - subsidiaries £1,752,000; other £871,000	(2,623)
Revaluation of investments in subsidiaries	3,463
Reclassification of loans	9,452
End of year	<u>14,933</u>

Disposals - other relates to 25 per cent of Deundi Tea Company Limited (see note 4(a)).

#### (c) Subsidiaries and associates

The principal subsidiaries at the year end are listed below. Details of dormant subsidiaries are not shown. Shareholdings are in ordinary and preference shares. Except where indicated all subsidiaries are incorporated in the United Kingdom; those incorporated in the United Kingdom are registered in England and Wales.

	Percentage of equity held
R.E.A. Services Limited	Services 100
Makassar Participation plc	Sub holding company 100
Makassar Investments Limited (Jersey) - 84 per cent voting	Sub holding company 79
P.T. REA Kaltim Plantations (Indonesia)	Plantation agriculture 79

The entire shareholdings in R.E.A. Services Limited and Makassar Participations Limited and 21 per cent of the equity shareholding in Makassar Investments Limited are held direct by R.E.A. Holdings plc. All other shareholdings are held by subsidiaries.

The group's share of certain items derived from the accounts of the former principal associates is set out below.

	Anglo American Agriculture PLC £'000	Deundi Tea Company Limited £'000	Makassar Investments Limited £'000	REA Vipingo Plantations Limited £'000
<b>2002</b>				
Fixed assets	-	-	-	-
Current assets	-	-	-	-
Creditors up to one year	-	-	-	-
Creditors over one year	-	-	-	-
<b>2001</b>	<b>4 months</b>	<b>12 months</b>	<b>11 months</b>	<b>4 months</b>
Turnover	146	746	1,441	995
Profit before taxation	(55)	35	(660)	(4)
Taxation	(1)	-	-	(13)
Profit after taxation	(56)	35	(660)	(17)

All these companies ceased to be associated companies in 2001.

## 5 Stocks

	2002 £'000	2001 £'000
Agricultural products	351	683
Engineering and other operational stocks	506	460
	<u>857</u>	<u>1,143</u>

## 6 Debtors

### (a) Consolidated balance sheet

	2002 £'000	2001 £'000
Due within one year		
Trade debtors	2,038	576
Other debtors	2,455	1,998
Prepayments and accrued income	51	318
	<u>4,544</u>	<u>2,892</u>

### (b) Company balance sheet

	2002 £'000	2001 £'000
Due within one year		
Group companies	5,681	7,554
Other debtors	1,265	1,262
	<u>6,946</u>	<u>8,816</u>

## 7 Creditors: falling due within one year

### (a) Consolidated balance sheet

	2002 £'000	2001 £'000
Bank loans and overdrafts – agriculture	(3,416)	(27,931)
Loan to PT REA Kaltim Plantations from entities associated with Mr M E Zukerman	(5,078)	(5,638)
Lease obligations	(71)	(83)
Trade creditors	(739)	(1,284)
Taxation and social security	(321)	(142)
Other creditors	(1,703)	(1,493)
Accruals	(2,437)	(2,802)
	<u>(13,765)</u>	<u>(39,373)</u>

## Notes to financial statements *continued*

During 2001, a subsidiary defaulted on payment of interest due on bank loans and overdrafts and of principal due on certain of those loans. In 2002 the subsidiary has re-negotiated the loans with its bankers (with the exception of an external loan of \$5,500,000 (£3,416,000)) and these have now been re-scheduled with repayments commencing over one year from the end of 2002. Hence these re-negotiated loans are now shown as amounts due after more than one year.

A subsidiary has granted a fixed charge over certain of its fixed assets and a floating charge over stocks to secure bank borrowings of £16,149,000 (2001 £17,931,000) and has granted a fixed charge over certain other fixed assets to secure bank borrowings of £3,416,000 (2001 £7,586,000).

### (b) Company balance sheet

	2002 £'000	2001 £'000
Group companies	(1,601)	(2,434)
Taxation and social security	-	(68)
Other creditors	(428)	(226)
	<u>(2,029)</u>	<u>(2,728)</u>

### 8 Creditors: falling due after more than one year

#### (a) Consolidated balance sheet

	2002 £'000	2001 £'000
Convertible debt - after five years (see note 8(b))	<u>(3,419)</u>	-
Other creditors		
Bank loans (see note 7(a) for security)	(20,963)	-
Loan to PT REA Kaltim Plantations from entities associated with Mr M E Zukerman	-	(919)
Other creditors	(50)	(858)
Loan notes	(53)	-
Finance lease obligations	(68)	(94)
	<u>(21,134)</u>	<u>(1,871)</u>
Loan obligations included in other creditors are repayable		
Between one and two years	(3,602)	-
Between two and five years	(9,783)	-
In over five years	(7,681)	(1,777)
	<u>(21,066)</u>	<u>(1,777)</u>
Finance lease obligations included in other creditors are repayable		
Between one and two years	(60)	(60)
Between two and five years	(8)	(34)
	<u>(68)</u>	<u>(94)</u>

The loan obligations included in other creditors repayable in over five years are repayable as to £4,027,000 in 2008 and £3,654,000 in 2009. Interest is payable on these loans at Singapore inter bank offered rate plus 2.75 per cent.

### (b) Company balance sheet

	2002 £'000	2001 £'000
Convertible debt - after five years	(3,419)	-
Loan notes - between two and five years	(53)	-
	<u>(3,472)</u>	-

Convertible debt represents 4 per cent convertible loan stock 2012 which, unless previously redeemed, shall be redeemed at par on 31 December 2012, the redemption amount being £3,800,000. Such stock is convertible into ordinary shares of 25p each in the company at the option of the holders at a conversion price of 53p per share, such conversion taking place annually in the month of June in any of the years from 2003 to 2012.

## 9 Capital and reserves

### (a) Share capital

	2002 £'000	2001 £'000
Authorised		
6,750,000 9 per cent cumulative preference shares of £1 each	6,750	6,750
30,000,000 (2001 - 22,000,000) Ordinary shares of 25p each	7,500	5,500
	<u>14,250</u>	<u>12,250</u>
Called-up and fully paid		
5,705,122 9 per cent cumulative preference shares of £1 each	5,705	5,705
12,727,578 (2001 - 12,427,501) Ordinary shares of 25p each	3,182	3,107
	<u>8,887</u>	<u>8,812</u>

On 26 April 2002, 300,077 ordinary shares of 25p each were issued at the market price at that date of 45p per share, credited as fully paid, in consideration for the acquisition of 2,753 issued preference shares in Makassar Participation plc.

At the year end there were 1,624,351 (2001 1,624,351) warrants, having an issue premium of £1,218,000 (2001 £1,218,000). Each warrant entitles the holder in each year until 2013 to acquire one new ordinary share at a price of 73.5p, or by surrendering 0.735 preference shares.

Non equity shareholders' funds relate to 9 per cent cumulative preference shares with voting rights only if the dividend payable on the 9 per cent cumulative preference shares is six months or more in arrears.

### (b) Reserves – Consolidated balance sheet

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Exchange reserve £'000	Other reserve £'000	Profit and loss account £'000
Beginning of year	1,178	3,240	1,060	(3,376)	-	2,465
Revaluation	-	-	3,270	-	-	25
Adjustment to fair values on acquisition	-	-	125	-	-	-
Issue of new ordinary shares	60	-	-	-	-	-
Cost of issue of shares	(5)	-	-	-	-	-
Adjustment of non-equity dividends	-	-	-	-	256	(256)
Goodwill previously written off to reserves	-	-	-	-	-	50
Foreign exchange translation	-	-	-	(1,611)	-	-
Non-equity dividends in arrears	-	-	-	-	512	-
Retained profit for year	-	-	-	-	-	170
End of year	<u>1,233</u>	<u>3,240</u>	<u>4,455</u>	<u>(4,987)</u>	<u>768</u>	<u>2,454</u>

Warrants in issue had a book value of £1,218,000 (2001 £1,218,000)

Other reserve represents non-equity dividends in arrears.

Aggregate goodwill of £50,000 (2001 £100,000) has been written off to profit and loss account.

### (c) Reserves – Company balance sheet

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Other reserve £'000	Profit and loss account £'000
Beginning of year	1,178	3,240	(3,741)	-	3,890
Revaluation and exchange	-	-	3,463	-	-
Issue of new ordinary shares	60	-	-	-	-
Cost of issue of shares	(5)	-	-	-	-
Adjustment of non-equity dividends	-	-	-	256	(256)
Non-equity dividends in arrears	-	-	-	512	-
Retained loss for year	-	-	-	-	(1,434)
End of year	<u>1,233</u>	<u>3,240</u>	<u>(278)</u>	<u>768</u>	<u>2,200</u>

Warrants in issue had a book value of £1,218,000 (2001 £1,218,000)

Other reserve represents non-equity dividends in arrears.

The directors believe that the fall in value of fixed assets is not permanent. The revaluation has therefore been taken to the revaluation reserve and not the profit and loss account.

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company has not been presented. The loss before dividends recognised in the company's profit and loss account is £922,000 (2001 loss £471,000).

## Notes to financial statements *continued*

### (d) Reconciliation of shareholders' funds – Consolidated balance sheet

	2002 £'000	2001 £'000
Profit for financial year	682	221
Goodwill previously written off on disposal of business	50	100
Dividends	-	(256)
Issue of shares	130	1,268
Redemption of warrants	-	(1)
Revaluation and foreign exchange translation	1,809	(2,254)
	<u>2,671</u>	<u>(922)</u>
Shareholders' funds at beginning of year	14,597	15,519
Shareholders' funds at end of year	<u>17,268</u>	<u>14,597</u>

### (e) Reconciliation of shareholders' funds - Company balance sheet

	2002 £'000	2001 £'000
Loss for financial year	(922)	(471)
Dividends	-	(256)
Issue of shares	130	1,268
Redemption of warrants	-	(1)
Revaluation	3,463	(1,462)
	<u>2,671</u>	<u>(922)</u>
Shareholders' funds at beginning of year	14,597	15,519
Shareholders' funds at end of year	<u>17,268</u>	<u>14,597</u>

## 10 Commitments and risks

At the year end, the group had commitments for capital expenditure contracted but not provided for of £1,804,000 (2001 £nil). Included in investments in subsidiaries is £3,779,000 (2001 £3,779,000 included in cash) representing a deposit which funded a loan participation with a bank that provides finance to a subsidiary. In 2001, such finance was shown as a borrowing.

The company has leased its head office in London for the term from 3 May 2001 to 3 July 2007 at an initial annual rent of £43,500 per annum subject to review at 25 March 2005.

The group's financial instruments now comprise preference shares, convertible debt, borrowings, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the group's operations. It is, and has been throughout the year, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year. The group finances its operations through a mixture of share capital and retained profits, bank and other borrowings and credit from suppliers. The group borrows at both fixed and floating rates of interest. Other than the convertible loan stock most of the group's borrowings are in respect of its investment in fixed assets for the agricultural business and are denominated in US dollars. Such assets are also denominated in US dollars and hence there is no material currency exposure on these borrowings. Sales for this business are also mainly in US dollars.

Short term debtors are excluded from the financial assets. Other financial assets are:

	2002 £'000	2001 £'000
Cash at bank and in hand - sterling	24	878
Cash at bank and in hand - US dollars	1,119	335
Cash at bank and in hand - Indonesian rupiah	597	406
Bank deposits - US dollars	3,416	3,779
	<u>5,156</u>	<u>5,398</u>
Interest rate on deposits (all others - nil interest)		
Floating - average rate	2.6%	6.0%

The interest rate profile of the group's financial liabilities (excluding preference shares) at 31 December 2002 was

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000
<b>2002</b>				
Sterling	(4,364)	-	(3,419)	(945)
US dollar	(32,766)	(29,587)	(53)	(3,126)
Indonesian rupiah	(1,188)	-	-	(1,188)
	<u>(38,318)</u>	<u>(29,587)</u>	<u>(3,472)</u>	<u>(5,259)</u>
<b>2001</b>				
Sterling	(921)	-	-	(921)
US dollar	(36,379)	(13,224)	(22,750)	(405)
Indonesian rupiah	(3,944)	-	-	(3,944)
	<u>(41,244)</u>	<u>(13,224)</u>	<u>(22,750)</u>	<u>(5,270)</u>

The company's 9 per cent cumulative preference shares of £1 each are excluded from the above profile.

At 31 December 2002 there were £3,800,000 sterling fixed rate financial liabilities which had a book value of £3,419,000 after deducting the costs of issue and which carried a weighted average interest rate of 4 per cent per annum and US\$85,000 of US dollar fixed rate financial liabilities which carried an interest rate of 5 per cent per annum. The financial liabilities on which no interest is paid have a weighted average period until maturity of 0.1 (2001 0.1) years. The floating rate financial liabilities bore interest based on applicable bank and money market base rates.

Financial instruments were

	Book value £'000	Fair value £'000
<b>31 December 2002</b>		
Short term financial liabilities	(13,765)	(13,765)
Long term financial liabilities	(24,553)	(24,934)
Financial assets	5,156	5,156
Preference shares	(5,705)	(4,279)
<b>31 December 2001</b>		
Short term financial liabilities	(39,373)	(39,373)
Long term borrowings	(1,871)	(1,871)
Financial assets	5,398	5,398
Preference shares	(5,705)	(4,279)

Fair values have been calculated using currently available market values and interest rates.

The group's policy towards currency risk is not to cover long term risk in respect of its investments. Almost all the group's trade is priced in US dollars. Amounts receivable by the group are denominated mainly in US dollars and sterling. That which is denominated in US dollars and currencies other than sterling are not covered by forward currency contracts. A degree of interest rate risk is accepted as long as the effects of various changes in rates remain within certain prescribed ranges. On the basis of the group's analysis, it is estimated that a rise of one percentage point in all interest rates would have reduced 2002 profit before tax by £270,000.

#### 11 Other operating income and expenses

	All continuing £'000
<b>2002</b>	
Cost of sales	<u>(7,897)</u>
Gross profit	<u>4,934</u>
Administrative expenses	(2,571)
Other operating income	<u>(2,571)</u>

## Notes to financial statements *continued*

2001	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	(377)	(26)	(403)
Gross profit	949	79	1,028
Administrative expenses	(1,202)	(33)	(1,235)
Other operating income	12	-	12
	<u>(1,190)</u>	<u>(33)</u>	<u>(1,223)</u>

### 12 Profit and loss account analysis

The profit on ordinary activities before taxation for the year is stated after charging

	2002 £'000	2001 £'000
Depreciation, including finance leases £38,000 (2001 £14,000)	1,616	137
Operating leases	53	22
Auditors' remuneration - audit fees	60	42
other	-	-
	<u>-</u>	<u>-</u>

Interest payable totalling £669,000 (2001 £272,000) comprises group interest on bank loans and overdrafts of £525,000 (2001 £171,000) and group interest on all other loans of £144,000 (2001 £101,000). In addition interest payable of £180,000 (2001 £199,000) has been capitalised.

Minority interests includes £nil (2001 £(50,000)) for share of minority interests of associated companies. The remaining minority interests are both equity and non-equity minority interests.

Disposal of assets and investments comprises

	2002 £'000	2001 £'000
(Loss) on sale of investments	(270)	(97)
Adjustment of the sale proceeds on the disposal of interests	-	(24)
(Loss)/profit on sale of tangible fixed assets	(6)	569
Additional proceeds on sale of a business	-	100
	<u>(276)</u>	<u>548</u>
Goodwill previously written off on disposal of business, originally paid when the above interests were acquired and which, at the time of acquisition had been written off direct to reserves	(50)	(100)
	<u>(326)</u>	<u>448</u>
Comprising		
Continuing	(6)	569
Discontinued	(320)	(121)
	<u>(326)</u>	<u>448</u>

Earnings per share has been calculated on the profit on ordinary activities after taxation attributable to ordinary shareholders divided by the average number of ordinary shares in issue, being 12,628,000 during the year (2001 11,346,000). Diluted earnings per share is based on 12,824,000 shares (2001 10,759,000) to take account of the exercise of the outstanding warrants and for 2002 the exercise of outstanding options. Additionally in 2002 a further adjustment has been made for the conversion of convertible loan stock at the conversion value of 53p of loan stock for each ordinary share of 25p each.

### 13 Staff costs

	2002 £'000	2001 £'000
Employment costs		
Wages and salaries	3,216	516
Social security costs	186	51
Pension costs	124	79
	<u>3,526</u>	<u>646</u>

Average number of persons employed	2002	2001
Agricultural		
Permanent	2,785	-
Temporary	468	-
Head office	6	6
	<u>3,259</u>	<u>6</u>

2001 figures relate only to the United Kingdom. The agricultural activities have only been accounted for as a subsidiary undertaking with effect from December 2001 and no proportionate employee numbers have been included for 2001.

#### 14 Pensions

The company is the principal employer of the R.E.A. Pension Scheme (the "Scheme") and a subsidiary company is a participating employer. The Scheme is a multi employer contributory defined benefit pension scheme with assets held in a trustee-administered fund, which has participating employers outside of the group.

The cost to the group, which is the same as the amount paid, is shown in note 13 above. Contributions are established according to the recommendations of the actuary. The scheme was last actuarially assessed, using the projected unit method, as at 1 January 2000. The principal actuarial assumptions adopted in this valuation were an annual investment return 2 per cent higher than the annual increase in pensionable salaries and 3.5 per cent more than both the annual increase in present and future pensions and the annual increase in retail price inflation. An overall deficit was applicable to all participants of £950,000 applying a discounted market value for assets. The contribution rate payable by the group from 1 January 2002 was 22.1 per cent of which the normal rate to cover accruing benefits is 17.7 per cent together with an additional contribution of 4.4 per cent to eliminate the deficit over a period of 11 years being the average future service lifetime of the active members of the Scheme. These are the same rates as for the year commencing from 1 January 2001. These rates are subject to review at future actuarial valuations.

As the Scheme is a multi employer scheme in which the employer is unable to identify its share of the underlying assets and liabilities, pensions costs are being accounted for on a defined contribution basis. The cost to the group for the year is stated in note 13 above and there are no outstanding or prepaid contributions at the balance sheet date.

#### 15 Directors' remuneration

Details of directors' remuneration are disclosed in the directors' remuneration report.

#### 16 Related party transactions

During 2002 and 2001, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the directors' remuneration report. Also in 2001, the group provided technical and other services valued at £216,000 (2002 - £nil) to those principal associates shown in note 4(c).

Emba Holdings Limited provided on demand unsecured loans to the group of which the closing balance was £290,000 (2001 - £nil). Emba Holdings Limited was party to an agreement of 26 April 2002 with the company pursuant to which Emba Holdings Limited provided assurances as to the subscription of part of the issue of 4 per cent convertible loan stock 2012 of the company offered for subscription pursuant to an open offer of the same date. On 3 May 2001, Emba Holdings Limited acquired from the company the former shareholding in R.E.A. Trading Limited for a cash consideration of £3,145,000.

#### 17 Taxation

	2002 £'000	2001 £'000
<i>(a) Analysis of the tax charge for the year</i>		
UK corporation tax	-	(122)
Foreign taxation	(59)	(97)
Share of taxation of associated companies	-	(13)
Current year tax charge	<u>(59)</u>	<u>(232)</u>
Prior periods	10	85
	<u>(49)</u>	<u>(147)</u>

## Notes to financial statements *continued*

	2002 £'000	2001 £'000
<i>(b) Factors affecting the tax charge for the year</i>		
Profit/(loss) on ordinary activities before tax	1,456	427
Tax on ordinary activities at 30 per cent (2001 30 per cent)	(437)	(129)
Tax effect of the following items		
Expenses not deductible for tax purposes	(23)	(205)
Deferred tax asset not recognised	(453)	(63)
Timing differences subject to deferred tax (if provided)	222	235
Utilisation of tax losses	691	40
Share of associated companies	-	(13)
Overseas tax	(59)	(97)
Adjustments to current tax charge in respect of prior periods	10	85
Current year tax charge	(49)	(147)

### *(c) Factors that may affect future tax charges*

Due to the carry over of losses for tax purposes and unrelieved management charges, future tax charges may be reduced by the utilisation of such losses and management charges.

Estate development costs in Indonesia, which include capitalised interest, are allowed for tax as and when incurred whereas for accounting purposes these are capitalised as fixed assets and depreciated over the productive life of the estates. Accordingly, future depreciation charged in the financial statements is likely to exceed depreciation allowed for tax purposes.

Save as disclosed in note 3, there is no material potential liability for deferred taxation (2001 £nil) or any tax asset which can be regarded as recoverable (2001 £nil).

### 18 Non-equity dividends

	2002 £'000	2001 £'000
Preference dividend	(512)	(512)

No preference dividends have been paid for the year ended 31 December 2002 and the six months ended 31 December 2001. Consequently dividends on the 9 per cent cumulative preference shares are in arrears for the eighteen months to 31 December 2002 at an amount of £768,000 (2001 £256,000).

### 19 Cash flow statement

	2002 £'000	2001 £'000
<i>(a) Reconciliation of operating profit/(loss) to operating cashflow</i>		
Operating profit/(loss)	2,363	(195)
Depreciation	1,616	137
Decrease in stocks	350	42
Increase in debtors	(1,513)	(2,561)
(Decrease)/increase in creditors	(1,216)	39
Exchange (loss)/gain	(565)	16
Net cash inflow/(outflow) from operating activities	1,035	(2,522)

### *(b) Analysis of net (debt)/funds*

	Opening £'000	Cash flow £'000	Rescheduling and other £'000	Exchange £'000	Closing £'000
Cash	1,288	462	-	(10)	1,740
Debt up to one year	(33,569)	-	24,124	951	(8,494)
Debt over one year	(919)	(6,229)	(19,489)	2,202	(24,435)
Finance leases	(177)	151	(129)	16	(139)
Bank deposits	4,110	3,315	(3,779)	(230)	3,416
	(29,267)	(2,301)	727	2,929	(27,912)

	2002 £'000	2001 £'000
Increase in cash in the year	462	755
Cash flow from debt and leases	(6,078)	3,776
Cash flow from management of liquid resources	3,315	(108)
	<u>(2,301)</u>	<u>4,423</u>
New subsidiary undertaking	-	(33,782)
Disposals	-	(51)
New debt and leases, net	727	(104)
Exchange	2,929	-
	<u>1,355</u>	<u>(29,514)</u>
Net (debt)/funds at beginning of year	(29,267)	247
Net debt at end of year	<u>(27,912)</u>	<u>(29,267)</u>

*(c) Sale of subsidiary undertaking – R.E.A. Trading Limited*

Net assets disposed of and the related proceeds of sale in 2001 were as follows

	£'000
Tangible fixed assets	6
Investment in associates	2,433
Trade investments	182
Stock	24
Debtors	771
Net cash sold	51
Other loans up to one year	-
Leases up to one year	-
Creditors	(987)
Net assets	<u>2,480</u>
Minority interest	(35)
Net consideration	<u>2,445</u>
Total consideration	3,145
Assumption of debt due to R.E.A. Trading Limited by the purchaser	(700)
	<u>2,445</u>

**20 Recognition of a subsidiary from an associate – Makassar Investments Limited**

From 20 November 2001, the company accounted for its investment in Makassar Investments Limited and that company's subsidiary PT REA Kaltim Plantations as a subsidiary. The fair values of Makassar Investments Limited at that date were as follows

	£'000
Tangible fixed assets	53,790
Trade investment	10
Stocks	1,174
Debtors	653
Cash acquired	712
Loans up to one year	(33,569)
Leases up to one year	(30)
Amounts due to group	(7,772)
Creditors up to one year	(4,165)
Leases over one year	(12)
Loans over one year	(883)
Creditors over one year	(815)
	<u>9,093</u>
Minority interest	(6,814)
	<u>2,279</u>

In accordance with FRS 6 Acquisitions and Mergers, no goodwill arose at the time the company acquired its investment in Makassar Investments Limited.

## Notes to financial statements *continued*

### 21 Rates of exchange

		2002		2001	
		Closing	Average	Closing	Average
Bangladesh *	Taka			82.00	80.00
Europe *	Euro			1.63	1.61
Indonesia	Rupiah	14,393.00	14,006.00	15,136.00	14,874.00
Kenya *	Shilling			114.00	113.00
United States of America	Dollar	1.61	1.51	1.45	1.45

\* Not relevant for 2002

### 22 Subsequent events

In February 2003, the company made an open offer of ordinary shares to ordinary shareholders, convertible stockholders and holders of warrants, together with a placing of ordinary shares. This raised £3.4 million (before expenses) and resulted in the issue of 4,620,185 new ordinary shares at 73p per share.

### 23 Financial condition and contingent liability

The group's operations in Indonesia continue to be exposed to the economic, political and social situation of Indonesia. The directors have considered the adequacy of disclosures made in the financial statements concerning this situation and its effect on the group.

The Indonesian rupiah was stable and other Indonesian economic indicators moderately positive during the year but it remains impossible to determine the effect that a deterioration in Indonesian economic, political or social conditions, which are outside the control of the group, might have on future values of assets, earnings, profitability or cash flows of the group. There is therefore a fundamental uncertainty as to the effect on the group's operations of the economic, political and social conditions in Indonesia. However the group is shielded to an extent from the effect of some of these factors because palm oil is traded using worldwide US dollar based commodity prices.

The financial statements have been prepared on the going concern basis which assumes that the company and its subsidiaries will continue in operational existence for the foreseeable future. The validity of this assumption depends on the successful conclusion of negotiations to reschedule loans to the company's subsidiary, PT REA Kaltim Plantations ("REA Kaltim"). The likelihood of achieving such a conclusion has been increased by the successful offer and placing referred to in note 22, which have provided the group with additional working capital resources and should assist the group in accessing other sources of finance, if required. The financial statements do not include any adjustments that would result if negotiations to reschedule loans to REA Kaltim are not concluded successfully.

In November 2001, entities associated with Mr M E Zukerman ("the plaintiffs") commenced an action in New York against the company and two of its directors personally ("the defendants") asserting claims ("the claims") for fraud, fraudulent inducement, breach of contract, promissory estoppel and tortious interference in relation to a purported oral contract between the company and the plaintiffs to cause Makassar and/or REA Kaltim to pay a return of 30 per cent per annum on monies lent to REA Kaltim by, or with the support of, the plaintiffs.

The company entered into no such agreement as is alleged by the plaintiffs. Accordingly, the directors consider that the claims are without merit and, on the basis of legal advice received, the defendants filed a motion to have the claims dismissed in their entirety. A magistrate judge (to whom the motion for dismissal was referred) recommended that, save for one minor component of one claim for fraud, all claims for fraud, fraudulent inducement and tortious interference should be dismissed but that the remaining claims, which are all contract related, should proceed (on the grounds that such claims could not be dismissed without investigation of the factual background which is not possible on a motion for dismissal). The plaintiffs have objected to the magistrate's recommendations as respects most of the claims recommended for dismissal and the defendants have objected as respects the magistrate's recommendation to retain the minor component of one claim for fraud. A final ruling on these matters is still awaited.