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R.E.A. Holdings Plc

Registered number: 671099

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# Officers and professional advisers

## Directors

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J C Oakley  
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L E C Letts  
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## *Secretary and registered office*

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## Financial advisers

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## Auditors

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## Registrars and transfer office

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Kent BR3 4TU

## Registered number

671099 (England and Wales)

# Summary of results

for the year ended 31 December 2003

	2003 £'000	2002 £'000	Change %
Sales	13,781	12,831	+ 7
Earnings before interest, tax, depreciation and amortisation (note 3)	6,190	3,979	+ 56
Profit on ordinary activities before tax	2,070	1,456	+ 42
Profit on ordinary activities after tax	1,725	1,407	+ 23
Profit attributable to ordinary shareholders	829	170	+ 387
<hr/>			
Earnings per ordinary share	5.1p	1.4p	+264
Dividend per ordinary share	nil	nil	nil

Closing exchange rates	2003	2002	2001	2000	1999
Indonesian rupiah to US dollar	8,465	8,940	10,400	9,700	7,058
US dollar to pound sterling	1.79	1.61	1.45	1.49	1.61

# Key statistics

for the year ended 31 December 2003

	2003	2002	2001	2000	1999
Nucleus area* - Hectares					
Mature oil palm	13,234	12,334	12,001	7,169	4,666
Immature oil palm (including prepared for planting)	3,000	900	1,233	6,233	7,894
Infrastructure and other unplantable areas	2,278	2,278	2,278	1,639	1,885
Plantable reserve (fully titled)	11,594	14,594	14,594	15,065	15,661
	30,106	30,106	30,106	30,106	30,106
Plantable reserve (surveyed and awaiting full title)	10,000	13,782	13,782	12,374	12,000
Plantable reserve (to be released)	9,894	6,112	6,112	7,520	7,894
Total	50,000	50,000	50,000	50,000	50,000

\*see "Group operations" section

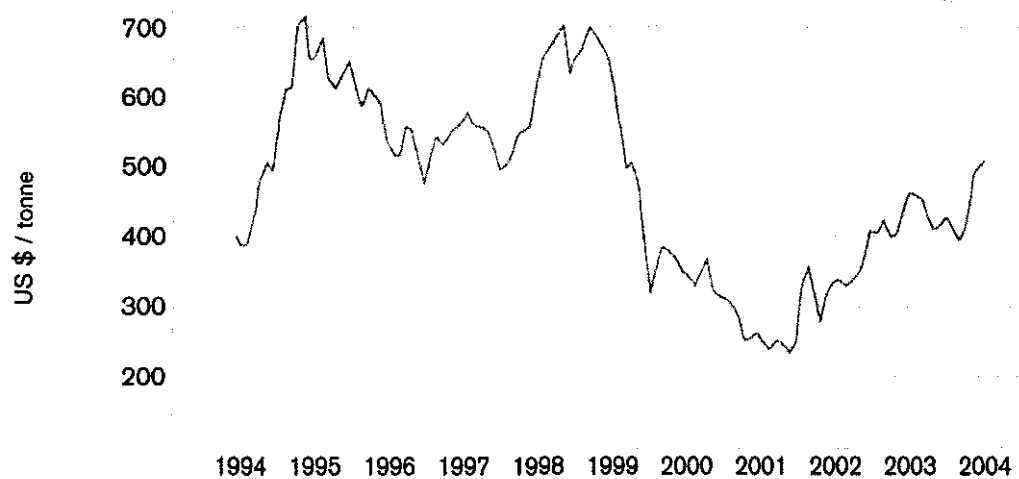
## Production - Tonnes

Oil palm fresh fruit bunch crop	222,713	199,184	123,992	55,177	19,750
Crude palm oil	55,426	49,604	28,557	12,440	4,444
Palm kernel	9,189	9,094	5,431	2,364	700
Total palm products	64,615	58,698	33,988	14,804	5,144
Oil extraction rate	24.9%	24.9%	23.0%	22.5%	22.5%
Kernel extraction rate	4.1%	4.6%	4.4%	4.3%	3.5%

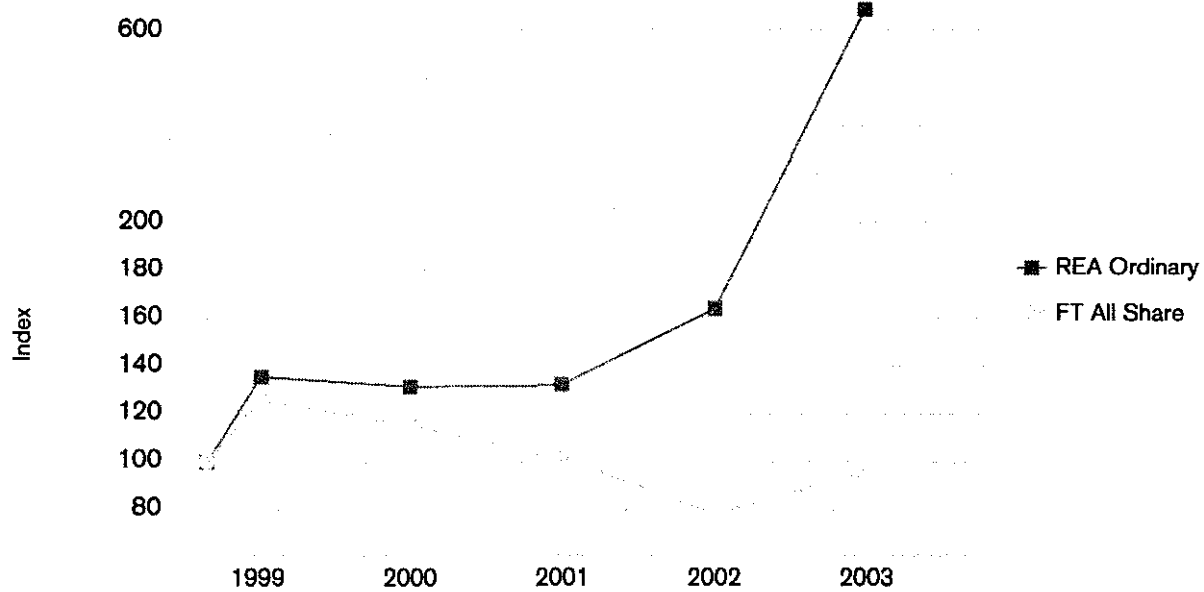
## Yields - Tonnes per mature hectare

Fresh fruit bunches	16.8	16.1	10.3	7.7	4.2
Crude palm oil	4.2	4.0	2.4	1.7	1.0
Palm kernel	0.7	0.7	0.5	0.3	0.2
Total palm products	4.9	4.7	2.9	2.0	1.2

Average crude palm oil price



Share performance graph



# Chairman's statement

## Format of the annual report

The company's 2003 annual report is being presented in a new format. Recent years have seen a significant expansion in the volume of information provided in the annual report and the directors had felt for some time that the previous format of the report had become less well suited to the presentation of the report's contents than was the case at the end of the 1980s when the previous format was first adopted. With the completion, in 2002, of the divestment programme designed to implement the group's decision to base its future entirely on its East Kalimantan operations, the financial statements for 2003 are uncluttered by any material disclosures in respect of discontinued operations. Accordingly, the 2003 annual report seemed an appropriate report in which to make a change.

In addition to various presentational adjustments to the report, changes have been made to the division of information between this "Chairman's statement" section of the report and the section that was formerly called the "Review of Operations" (now entitled "Group operations"). The changes are intended to focus the "Group operations" section on providing a general description of the overall business of the group, while concentrating, within the "Chairman's statement" section, on developments during the year under review and on prospects. This, it is hoped, will assist those longstanding shareholders who do not wish each year to read information that is frequently duplicative of previously published information, while retaining a reasonably full description of the group for new investors in the company and as a reference section for longstanding investors.

## Results

The profit on ordinary activities before taxation for 2003, as shown in the accompanying consolidated profit and loss account, amounted to £2,070,000. This represented an

increase of 42 per cent over the profit before tax of the preceding year of £1,456,000.

A combination of a relatively low tax charge, principally reflecting deferred tax adjustments, and a reduction in the component of profit attributable to minorities resulted in a profit after tax attributable to the group of £1,342,000, almost double the figure of £682,000 achieved in the preceding year.

The results were achieved despite the strengthening of sterling against the US dollar during the year. This had a negative impact because the group's revenues are effectively US dollar denominated.

## Operations

Operationally, the year was a little disappointing in as much as the fresh fruit bunch ("FFB") crop of 222,713 tonnes, although some 12 per cent higher than the 199,184 tonnes harvested in 2002, was 17 per cent below estimate. The directors attribute the shortfall to the dry conditions experienced in East Kalimantan in 2002 and do not believe that it has any implications as respects long term crop projections, particularly as the last four months of the year saw crops returning towards estimated levels and crops for the early months of 2004 have been in line with expectations.

Rainfall on the group's estates in 2003 exceeded the historic annual average of recent years of 3,000 millimetres per annum. Rainfall in the last quarter of the year was particularly heavy with some 650 millimetres being recorded on one estate in the month of December.

The standard of field upkeep continued to improve throughout 2003 and the resultant improvement in field conditions and field access lead to improved labour productivity. Harvesting performance was also considered generally satisfactory although the very wet conditions,

combined with the fact that the Idul Fitri holiday fell close to Christmas, caused some disruption to harvesting operations in the last quarter of the year. The manpower required to upkeep and harvest the mature areas was significantly reduced during the year.

Whilst all available crop was harvested, the dislocation of harvesting rounds in the last quarter of the year, exacerbated by delays in the transport of FFB from field to factory (also the result of the wet weather), caused some deterioration in ripeness standards, with a consequent negative effect on the crude palm oil ("CPO") extraction rate and on the free fatty acid content of the CPO produced. Absent these difficulties, the oil extraction rate of 24.9 per cent achieved in the year would have been even higher. Estate management is now making a major effort to improve the resilience of harvesting and FFB transport operations under high rainfall conditions.

The planned installation of a second production line in the group's oil mill was completed during 2003. With additional capacity coming on stream from July, the mill was comfortably able to cope with the processing requirements of the peak cropping period of September to December. Transport capacity was also expanded during the year with purchases of a second 1,000 tonne river barge and further 14 tonne trucks for the transport of CPO and palm kernels from the mill to loading points on the Belayan river. A second jetty was constructed at the transshipment terminal. In addition to savings stemming from these new investments, there were savings in transport costs as a result of the higher rainfall experienced in the year. This permitted upriver barge loading adjacent to the mill during most of the year and avoided a repetition of the significant cost penalty incurred in 2002 in trucking CPO and palm kernels to a barge loading point downstream of the mill.

45 hectares of nurseries were established during 2003 to accommodate the 900,000 seeds purchased in the year. Land clearing for the new extension planting programme of

3,000 hectares per annum started mid 2003 and good progress has been made on the construction of roads and bridges and the planting of cover crops in the newly cleared areas. Field planting of ex-nursery seedlings at a rate of 250 hectares per month is programmed for 2004 and all aspects of the extension planting programme are planned to move forward in 2004 at a rate of 250 hectares per month.

#### Group development

The group has made good progress in its efforts to place its finances on a firmer footing.

In March 2003, the company raised £3.07 million (before expenses) by way of a placing and open offer. Then, in September 2003, an additional £1.9 million (before expenses) was raised by way of a further placing. With these monies, the company supported a rights issue by its subsidiary, Makassar Investments Limited ("Makassar") (the Jersey holding company of PT REA Kaltim Plantations ("REA Kaltim"), the direct owner of the established East Kalimantan operations). Outside shareholders in Makassar did not take up their rights and, in consequence, the company further increased its equity interest in Makassar to the current level of 87.7 per cent.

Makassar was able, with the proceeds of its 2003 rights issue, to provide additional financial support to REA Kaltim. This has enabled REA Kaltim to arrange new loan funding from an Indonesian bank with which to complete the restructuring of REA Kaltim's bank debt. It is expected that such loan funding will be drawn down shortly and that it will then be possible to resolve the position regarding the indebtedness of US\$8.175 million owed to interests connected with Mr M E Zukerman, repayment of which has been demanded.

In any event, the group has already achieved a position (for the first time since early 2001) in which no event of default

# Chairman's statement continued

can be declared on any of its bank indebtedness in respect of any event that has arisen to-date.

Agreement in principle was reached during 2003, and has recently been formalised, for the establishment of a joint venture oil palm development (to be owned 95 per cent by the group and 5 per cent by a local Indonesian investor) on an area of land adjacent to the REA Kaltim property that lies to the south of the Belayan river. Subject to financing, it is hoped to develop that part of the new joint venture area that is suitable for planting with oil palms, currently estimated to comprise some 5,000 hectares, over a period of three to four years from July 2004. Such development will be in addition to the established 3,000 hectares per annum extension planting programme on the REA Kaltim property.

## Web site

In response to a number of requests from shareholders, the company is in the process of establishing a web site at "www.rea.co.uk". This is expected to become available for access in the near future and will provide general information regarding the company, including pictures of various aspects of the group's operations, together with facilities for downloading press releases and documents issued by the company.

## Dividends

A dividend equal in amount to the fixed semi-annual dividend on the 9 per cent cumulative preference shares that fell due on 31 December 2003 was duly paid to holders of the preference shares but the company remains in arrears to the extent of four semi-annual dividends on the preference shares. 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 CPO remaining at satisfactory levels and absent any material adverse change in the group's financial condition, the directors intend that the company should continue to make payments equal to all future semi-annual dividends on the preference shares as these arise and should seek to eliminate the accumulated arrears of dividend on the preference shares as rapidly as circumstances permit.

No dividend can be paid on the ordinary shares until all arrears of dividend on the preference shares have been discharged. Accordingly, no ordinary dividends have been paid or are proposed in respect of 2003.

## Staff

On behalf of the shareholders, the directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

## Prospects

With the East Kalimantan operations having received good rainfall during 2003, the directors are optimistic that 2004 will see yields returning to levels normal for the maturity profile of the productive areas. On that basis, the FFB crop for 2004 has been estimated at 298,000 tonnes, some 34 per cent ahead of the crop achieved in 2003. Present CPO price levels are highly remunerative for the group and, whilst commodity price trends are difficult to predict, forward prices indicate that CPO price levels should remain firm well into the second half of the year. On that basis, the directors foresee 2004 proving to be a very good year for the group.

Looking further forward, it must be remembered that the group is engaged in operations that are inherently risky. The CPO market is cyclical, agriculture can always be affected by climatic factors and the group's assets are located entirely in Indonesia. To these inherent risks must be added the risks associated with the continuing litigation

against the company. Against these factors, the group now has a substantial and efficient operating base, is a low cost producer of CPO and has an expansion programme that should ensure increasing crops for many years to come. Moreover, the much improved financial position of the group as compared with November 2001, when the New York litigation was initiated, has reduced the materiality of that litigation.

The directors acknowledge that it would be foolish to ignore the risks that the group faces. Moreover, they appreciate that, realistically, the group's forward progress will not be one of linear growth. Nevertheless, they believe that the group has an exceptional opportunity in East Kalimantan to establish a world class oil palm operation and they fully intend that the group should realise the potential that this opportunity affords.



**RICHARD M ROBINOW**

Chairman

# Group operations

## Overview

The entire business of the group is represented by oil palm operations in East Kalimantan, Indonesia.

The primary operations are owned by PT REA Kaltim Plantations ("REA Kaltim"), a subsidiary of Makassar Investments Limited ("Makassar"). Makassar holds a 100 per cent economic interest in REA Kaltim. At end 2003, the company held 87.7 per cent of the issued ordinary share capital and 89.9 per cent of the issued voting share capital of Makassar.

In addition, as a secondary activity, the group is seeking to establish further operations in East Kalimantan with ownership participation by local Indonesian interests. Development of a first such operation, to be owned as to 95 per cent by the group and 5 per cent by a local investor, was agreed during 2003.

## Area of operations

The primary East Kalimantan operations are being developed pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to provide a land concession of 125,000 hectares to be developed as to 50,000 hectares by REA Kaltim itself ("the nucleus area") and as to the balance of 75,000 hectares by local interests in cooperation with REA Kaltim. The concession area is located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lies either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia.

Although the 1991 understanding established a basis for release of land for development by or in cooperation with REA Kaltim, all actual land releases have to be agreed with the Ministry of Forestry and to go through a titling process. This process leads eventually to the issue of a registered land title certificate (an hak guna usaha or hgu certificate)

but only after insertion of boundary markers, as part of a cadastral survey, and completion of other required legal procedures. The Ministry of Forestry seeks to ensure that land is released only when it becomes needed for development and this has resulted in a staged programme of land releases that reflects the pace of development.

To date, the Ministry of Forestry has made four land releases to REA Kaltim, all of them relating to land in the nucleus area. Land title certificates have been obtained in respect of three of these releases totalling 30,106 hectares. The land registry survey of the area covered by the fourth (and latest) release of some 13,800 hectares was completed in 2002 and it had been expected that a land title certificate for this area would be issued in mid 2003. However, following the detailed consultation with local people that forms part of the survey and release process, REA Kaltim agreed to relinquish from the area released approximately 3,800 hectares on the basis that that land would remain available for use by the local people and that REA Kaltim would apply for a substitute area. This has required that a further survey is made of the amended area, now totalling approximately 10,000 hectares, before a land title certificate for this area can be issued. This survey is at an advanced stage.

The joint venture development agreed during 2003 will be based on some 6,500 hectares of land adjoining the south eastern boundary of REA Kaltim's nucleus area to the south of the Belayan river. A survey of the land has been completed and a registered land title certificate is expected to be issued by mid 2004.

A map showing the location of the East Kalimantan operations is shown in the "Map of operational area" section of this annual report.

## Scope of operations

The overall areal composition of the nucleus area

development at 31 December 2003 is shown in the "Key statistics" section of this annual report.

Mature plantings at 31 December 2003 comprised 13,234 hectares, all of which were derived from plantings initiated between 1994 and 1997. Following the political and economic destabilisation of Indonesia that occurred during 1997, and the subsequent negative effect of that destabilisation on the general availability of finance for development, REA Kaltim found itself obliged, in 1998, to suspend new planting and to concentrate its resources on bringing to maturity the areas that had previously been planted or prepared for planting. By 2003, with such areas having finally reached full maturity and achieving profitable cropping levels, REA Kaltim felt able to resume new planting and started an extension planting programme at an initial annual rate of 3,000 hectares. It is hoped that, from 2005, this planting rate can be progressively increased so as to complete the planting of the entire 50,000 hectare nucleus area (including the 13,234 hectares already developed) by the end of 2010. Such 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.

It is planned to commence operations on the new joint venture land in July 2004 with the establishment of a nursery. Initial land clearing is then projected to start in early 2005 and seedlings from the nursery should be available for field planting from mid 2005. Provided that finance permits, it is hoped that that part of the land that is suitable for planting with oil palms, currently estimated to comprise some 5,000 hectares, can be fully planted over a period of three to four years.

REA Kaltim at present operates a single oil mill in which fresh fruit bunches ("FFB") harvested from mature oil palm areas are processed into crude palm oil ("CPO") and palm kernels. The mill was brought into operation in late 1998

with a single production line having an initial capacity of 30 tonnes of FFB per hour. In 2002, the capacity of the first line was expanded to 40 tonnes per hour and, in 2003, a second production line was added with a capacity of 40 tonnes per hour. The enhanced milling capacity of 80 tonnes per hour is expected to be sufficient to process all future FFB production from the present mature areas. It is intended to construct a second oil mill, to be available from mid 2006, to process FFB from the extension planting programme now under way. Planning for this second mill commenced in 2003 and tenders for its construction will be invited during the course of 2004.

CPO output from the oil mill is initially stored in CPO tanks adjacent to the mill. From there, it is barged down the Belayan and Mahakam rivers to a transshipment terminal adjacent to the port of Samarinda for collection by buyers in ships of up to 6,000 tonnes. Upstream storage capacity amounts to 9,000 tonnes while the transshipment terminal, which is also owned by REA Kaltim, has a present capacity of 8,000 tonnes. It is planned that the transshipment terminal will be progressively expanded by the addition of further tanks as CPO throughput increases. A further 2,000 tonne tank is programmed for 2004.

After initially relying on outside contractors for barge transport of CPO, REA Kaltim is now establishing its own fleet of barges. A first 800 tonne barge was acquired in 2002 and this was followed by a second 1,000 tonne barge in 2003. Two further 1,500 tonne barges have been ordered for delivery in mid 2004. It is hoped that such further purchases will substantially eliminate the need for outside barge contractors, the use of whom has proved expensive. During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and CPO at times has to be transferred by road from the mill to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. To minimise the extra

# Group operations continued

cost that this involves, in 2003 REA Kaltim acquired a riverside site at a suitable downstream location for development as a permanent loading point for use in dry periods.

Palm kernels are handled similarly to CPO but are not transhipped at the transshipment terminal but are loaded directly from river barge to buyer's vessel. The transshipment terminal incorporates facilities for the storage and handling of fertilisers and other estate supplies and the barge fleet is used to carry such bulk inputs on return trips upstream.

With a view to reducing transport volumes and improving returns, REA Kaltim intends to incorporate, within the design of the planned second oil mill, a palm kernel crushing plant in which the palm kernel output from the existing and second oil mills will be further processed and the palm kernel oil contained in the kernels extracted.

## Production

FFB production for each of the years from 1999 (the first full year of production) to 2003 is shown in the "Key statistics" section of this annual report. The outturn for 2003 at 222,713 tonnes was below the 2003 budget; the shortfall may be attributed to moisture stress caused by unusually extended periods of dry weather in 2002. Accordingly, it is expected that production in 2004 will revert to levels normal for the present maturity profile of the producing hectareage and, on that basis, REA Kaltim is budgeting for FFB production in 2004 of 298,000 tonnes.

There is a considerable volume of data available on the FFB yields that are achieved from 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 level of around 24 tonnes per hectare. Production then remains at this level, reducing only

gradually in the second half of the palm's 25 year economic life. Yields in excess of 28 tonnes per hectare were achieved in 2002 from the earliest plantings and reduced only marginally to 27 tonnes in 2003. This would indicate that an average peak yield across all plantings will materially exceed 24 tonnes per hectare in a non drought affected year. Accordingly, further significant growth toward a fully mature output in excess of 300,000 tonnes per annum can be confidently expected over the next few years from the present mature area of 13,244 hectares.

Beyond 2006, crops should further increase by significant annual increments as the areas being planted under the present extension planting programme progressively reach maturity.

The East Kalimantan operations are located in an area of high rainfall with sunlight hours and soil conditions well suited to the cultivation of oil palm. Nevertheless, weather and growing conditions vary from year to year and setbacks are possible (as occurred in 1997/98 during the period of the El Nino weather phenomenon). As with any agricultural product, oil palm cropping is directly related to growing conditions.

Achievement of projected production will also be dependent on operating efficiency in maintaining optimal field conditions, in harvesting and processing available crops and in controlling pests and diseases. Production may also be affected by non-agricultural considerations including continuing good relations with the group's workforce and freedom to operate in a secure environment.

As set out in the "Key statistics" section of this report, a CPO extraction rate of just under 25 per cent is being consistently achieved. This is considered to be an excellent result and almost certainly one of the highest in the oil palm industry. The palm kernel extraction rate, which was 4.1 per cent in 2003, was less satisfactory. Some changes to the

design of the kernel extraction plant are planned for 2004 to address the high losses of kernel during processing.

## Sales

Slightly over 80 per cent by weight of palm product output is represented by CPO and the balance by palm kernels. Although there are periodic material divergences in the relationship between the prices of CPO and of palm kernels, historically the price per tonne of the latter has generally been some 50 to 60 per cent of the former. Accordingly, the group's revenues are critically dependent on CPO prices.

According to Oil World, CPO production in the year to 30 September 2003 totalled 27.2 million tonnes, representing some 22.1 per cent of the total world production of the 17 major vegetable oils and fats for the same period of 122.9 million tonnes. The principal competitors of CPO are the oils from the annual oilseed crops of which the most significant are soyabean, oilseed rape and sunflower. The production from the three latter, as annual crops, can be adjusted much more rapidly to movements in prevailing market prices than production of CPO. Whilst in some areas (such as the EU) the economics of growing oil seeds are distorted by subsidies, the directors nevertheless believe that fundamental market factors still drive the overall levels of annual oil seed production and that the ability to reduce or increase such production in response to market surpluses or shortfalls will normally serve to correct imbalances within a relatively short time frame.

The outlook for CPO prices must also be considered against the background of consumption of vegetable oils and fats. According to Oil World, worldwide consumption of vegetable oils and fats increased by 2.7 per cent to 12.4 million tonnes in the year to 30 September 2003. This is slightly below the average growth in consumption of some 4.3 per cent per annum in the preceding three year period. Major uses of vegetable oil are for the production of

cooking oil, margarine and soap and consumption of these basic commodities in less developed areas is closely related to per capita incomes.

The CPO price, spot CIF Rotterdam, started 2003 at levels of US\$ 465 per tonne and fell progressively to just under US\$ 400 per tonne in August 2003 as a result of market expectations that the tight stock levels for all oils and fats at the start of the year would progressively ease. In August, it became apparent that there would be a significant shortfall against expectations in the US soybean crop and that this would result in increased pressure on world stocks of oils and fats. CPO prices then moved sharply upwards during the last four months of the year in line with the prices of other vegetable oils and closed the year at a price of US\$ 510 per tonne. Since then, prices have continued to rise reflecting new concerns about soybean and sunflower crop losses in Argentina and Brazil as a result of adverse weather conditions and about the effects of avian flu on soybean meal demand and therefore soybean crushing volumes.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown in the "Key statistics" section of this annual report. The average price over the last ten years has been US\$ 472 per tonne. The directors are of the opinion that the low prices of CPO in the last quarter of 2001 and early months of 2002 and the subsequent recovery in prices to the higher levels now prevailing are simply cyclical fluctuations in a market that has historically been subject to major movements about a norm.

Prior to 2003, almost all of the group's CPO production was sold into the local Indonesian market. With the increased cropping achieved in 2003, production levels provided sufficient volume to support an export sale programme and arrangements were put in place to make regular export shipments of CPO. As a result, approximately 78 per cent of CPO production was sold in the local Indonesian market

# Group operations continued

during 2003 and the balance of 22 per cent was exported. Prices realised for CPO in the local market during 2003 were broadly equivalent to those available in the export market but, as sales volumes continue to increase, it is anticipated that the improved logistics of export sales will lead to export sales returning better prices for CPO than local sales.

The low volume of kernel production makes bulk shipments of kernel impractical. Accordingly, kernel continues to be sold almost exclusively to Indonesian processors located a short shipping distance away from Samarinda.

## Costs

The East Kalimantan operations represent an established business and the directors therefore believe that costs are predictable subject to the normal uncertainties inherent in any commercial activity.

Whilst the possibility of currency exchange rate fluctuations, with particular reference to the Indonesian rupiah, represents an uncertainty (against which the group does not normally hedge), the directors do not consider the risks attaching to that uncertainty to be major. That is because CPO is essentially a US dollar based commodity and the group's sales revenues are effectively US dollar denominated. On the cost side, some costs are Indonesian rupiah denominated but a significant component of operating costs (including fertiliser, machinery inputs and diesel oil) are US dollar linked and the major component of overheads and financing costs is incurred in US dollars.

There are nevertheless some risks of cost inflation in US dollar terms from increasing labour rates and reducing local subsidies if, as has happened in recent years, such cost inflation is not compensated for by a commensurate depreciation in the value of the Indonesian rupiah against the US dollar. In fact, over the two year period to end 2003, the Indonesian rupiah marginally strengthened against the

US dollar but government directed wage rates in Indonesia increased by 20 per cent. These changes, unavoidably, have had some negative impact on operating costs in US dollar terms. Fortunately, operating efficiencies achievable from the growing production volumes, coupled with the better absorption of overheads that expansion of planted areas will permit, provide scope to contain the negative impact to an extent that should mean that it will not be material to the overall profitability of the group.

## Employment, welfare and the local environment

Concurrently with development of the East Kalimantan operations, the group has established a permanent workforce to man the operations. That workforce currently numbers some 2,600 and is sufficient for the present level of operational activity, although further recruitment will become necessary as the present extension planting programme progresses. Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates.

The group places considerable emphasis on welfare and remuneration structures and aims to promote a productive and stable workforce. With operations maturing, training is an important focus for the management team in its efforts to establish best practice in all aspects of the group's activities. 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 brought with it the need to enlarge the operational management team and an annual recruitment programme for graduates with agricultural qualifications has been instituted. These graduates join the cadet training programme. Those successfully completing this twelve month programme, which provides a grounding in all aspects of oil palm estate management, are offered positions as assistant managers. The size of the cadet programme is to be increased in 2004 to reflect the current expansion plans.

To-date, training programmes have been constructed and operated out of REA Kaltim's own training school and have been targeted primarily at lower and middle management levels. In view of the importance attached by the group to the development of management skills at all levels, it is intended that the scope of the 2004 training programme be increased to include the external provision of management development programmes for REA Kaltim's senior levels of management.

Whilst the group does have Indonesian 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 operations have been a source of increased prosperity to surrounding villages and the group is generally on good terms with those villages. Good progress has been made since 2001 in assisting the local villages in establishing their own smallholdings of oil palm and it is hoped that this mutually beneficial commercial connection, together with other initiatives to encourage local farmers in the production of foodstuffs, will assist in the continued maintenance of friendly relations.

The village co-operative smallholder scheme totalled 258 hectares at 31 December 2003, based on nine local villages. A further 400 hectares of smallholder planting is planned for 2004. Each local farmer cultivates oil palm on his own two hectare plot and REA Kaltim supplies fertiliser inputs and technical advice. In due course, the 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 establishment of the farmer's smallholding.

The availability of some local government funding for the smallholder scheme has been a most welcome support for the scheme in recent years and REA Kaltim hopes that such local government funding will continue. However, the provision of bank finance for future smallholder

development will be fundamental to the expansion of the smallholder initiative. Historically, banks in Indonesia have advanced substantial sums to smallholder farmers through central government sponsored schemes in which nucleus estate operators have acted as agents of the banks in relation to the advances. Unfortunately, such schemes, which are said to have been abused by some nucleus estate operators, have been largely discontinued in recent years. REA Kaltim is therefore seeking to obtain smallholder loans by direct negotiation with several local development banks serving East Kalimantan and without central government involvement.

REA Kaltim continues to follow the environmental policies that it established following a detailed environmental impact assessment, conducted in 1995. Designated conservation areas, designed to preserve established wildlife trails, were retained within the REA Kaltim property 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 Indonesian context

Whilst the Indonesian domestic economy is now expanding modestly, growth has been fuelled primarily by consumer spending. The Indonesian rupiah firmed against the US dollar during the year and this, when combined with the significant increases in the government directed minimum wage in the last three years, has led to a significant increase in Indonesian operating costs. Such increase, the continuing issues related to internal security, concerns as to the reliability of the Indonesian legal system, external sovereign and corporate debt and the continuing budget deficits do not help international perceptions of the Indonesian investment environment. The parliamentary and presidential elections in 2004 have created further political uncertainty in the short term. Nevertheless, the significant rise over the past twelve months in the Jakarta stock exchange share index suggests that international views of

# Group operations continued

the economic outlook for Indonesia are becoming more positive than they were.

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. It appears that this is recognised by the Indonesian political establishment and it must be hoped that the country's new-found democracy can, over time, provide the framework for improving political stability and effective government so as to maintain a backdrop against which the oil palm industry can continue to thrive.

Throughout 2003, the Indonesian export tax on CPO remained unchanged at a level of US\$ 4.80 per tonne but the material improvement in CPO prices over the past two years has recently lead to some discussion in government circles about the imposition of a materially higher rate of export tax. In the past, the imposition of high rates of export tax has stifled investment in oil palm plantations in Indonesia and the effectiveness of the tax in raising government revenue has been questionable. The directors believe that any material increase in the rate of tax on the export of raw materials in general and CPO in particular would be damaging to Indonesia's long term economic recovery. Recent press briefings by senior Indonesian officials encourage the view that the directors' opinion, at least in so far as concerns the export tax on CPO, is shared by the Indonesian authorities.

The province of East Kalimantan remains generally stable and prosperous as a result of its large natural resource

base, low population and near full employment. The influence of the regional autonomy legislation in Indonesia has lead to significant new investment within the province in roads and other infrastructure. Of particular interest is the continuing progress on the construction of a major bridge over the Mahakam river. This is expected to provide road access to the East Kalimantan operations (which are at present accessible only by river) from 2005.

One area of concern during 2003 was the incidence of what appeared to be politically motivated strikes in certain high profile operations in East Kalimantan such as PT Kaltim Prima Coal, a major joint venture open cast coal mine. The group's operations did suffer some labour disruption in connection with the implementation of the annual government directed minimum wage increase but, with help from the provincial government labour department, the issues were quickly resolved. Such incident apart, the group's relations with its staff and workforce have been and remain good.

## Financing

Whilst the group's East Kalimantan operations are now generating positive cash flows, the achievement of that satisfactory situation has involved a long development period and substantial funding. During the early years of the development period, the procurement of the necessary funding proved relatively straightforward. Equity and preference share capital were supplied by the company and other investors through Makassar and these were augmented with 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 Mr M E Zukerman ("the MEZ group") (an equity investor in Makassar with a shareholding originally 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 development of the East Kalimantan operations was accompanied by the negative trading factors of a slower than expected build up in crops from the operations and a fall in CPO prices to a low of under US\$ 250 per tonne. Difficulties developed in the relationship between the company and the MEZ group and whilst efforts were made to reconcile those differences, including an agreement in February 2001 that REA Kaltim should suspend all debt service and seek more favourable terms from its lenders, those efforts failed.

Following such failure, in November 2001, on the requisition of the company, an extraordinary general meeting of Makassar was held at which 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 extraordinary general meeting 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 so as to raise the sum of £3.8 million (before expenses). With the monies raised from the 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 rights issue. In consequence, the combined interests of the company and MP in the capital of Makassar increased to 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 in completing restructuring negotiations with its Indonesian bankers leading to the signature of formal rescheduling agreements in December 2002 with a sufficient number of the bankers to ensure that no event of default can now be declared (in relation to events that arose prior to execution of the rescheduling agreements) in respect of the REA Kaltim Indonesian bank borrowings totalling US\$ 29.5 million.

The balance of REA Kaltim's delinquent debt at 31 December 2002 (excluding balances owed to, or backed by cash balances from, other members of the group) comprised a total of US\$ 13.675 million made up of US\$ 5.5 million owed to Commerzbank (South East Asia) Limited ("Commerzbank") and US\$ 8.175 million owed to the MEZ group ("the MEZ loan"). Reorganisation of this debt has been complicated by two factors: first, by the refusal of the MEZ group to agree to the release of a guarantee originally given by a member of the MEZ group in respect of the US\$ 5.5 million owed to Commerzbank (this notwithstanding that, in May 2001, the MEZ group failed to meet a call on the guarantee in question and commenced proceedings in New York against Commerzbank seeking a declaratory judgement that Commerzbank had no right to accelerate such guarantee); and, second, by the decision of the MEZ group to reject proposals for a rescheduling of the MEZ loan on a basis consistent with the rescheduling agreed between REA Kaltim and its Indonesian bankers and, instead, to demand

# Group operations continued

immediate repayment of the MEZ loan and threaten bankruptcy proceedings against REA Kaltim if such repayment was not made.

Against this background, the directors concluded that it would be prudent to reinforce further the financial resources of the group and, in March 2003, the company raised £3.1 million (before expenses) by way of a placing and open offer of 4,620,185 ordinary shares. An additional £1.9 million (before expenses) was raised by a further placing of 1,300,000 ordinary shares in September 2003. With these monies, the company and MP supported another rights issue by Makassar. The MEZ group again did not take up its rights and, as a result, the combined interests of the company and MP in the capital of Makassar increased to their 2003 year end levels of 87.7 per cent of the issued ordinary share capital and 89.9 per cent of the issued voting share capital.

The proceeds of the 2003 Makassar rights issue provided Makassar with monies that enabled it to give additional financial support to REA Kaltim. This, in turn, has permitted REA Kaltim to secure new loan funding from an Indonesian bank with which to complete the restructuring of REA Kaltim's bank debt. It is expected that such loan funding will be drawn down in the near future and that it will then be possible to resolve the outstanding demand for repayment of the MEZ loan. In any event, REA Kaltim has already achieved a position in which no event of default can be declared on its bank indebtedness in respect of any event of default that has arisen to-date.

## 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 on the former US\$ 5.5 million Commerzbank loan to REA Kaltim that was originally guaranteed by a member of the MEZ group (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 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 against the company (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.

The directors believe that it would be preferable if the MEZ group's demand for repayment of the MEZ loan and the MEZ group's litigation claims could be resolved without court proceedings. During 2003, it was proposed 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 group and the MEZ group but this proposal was not pursued by the MEZ group. The directors remain open to 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 operations and give no weight to claims that are wholly without foundation.

If a satisfactory negotiated settlement cannot be achieved, the directors will vigorously defend the company and its directors against, and protect the commercial interests of the group in the face of, the litigation claims of the MEZ group. The directors are also considering whether the group should pursue various potential counterclaims against Mr Zukerman and the MEZ group.

# Directors

*Richard Robinow*  
Chairman (58)

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.

*John Oakley*  
Managing director (55)

Was appointed a director in 1985 after early experience in investment banking and general management. Appointed managing director in January 2002.

*John Green-Armytage*  
Independent non-executive director (58)

Was a non-executive director from 1984 to 1994. Rejoined the board in a non-executive capacity in 1997. Chairman of AMEC PLC and a director of JZ Equity Partners PLC and a number of other companies.

*John Keatley*  
Senior independent non-executive director (70)

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.

*Charles Letts*  
Independent non-executive director (85)

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.

*Chan Lok Lim*  
Independent non-executive director (62)

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. He is presently also a director of Pan Abrasives (Private) Limited, Singapore.

# Directors' Report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 December 2003.

## Principal activities and business review

The principal activity of the group is 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 "Group operations" sections of this annual report.

## Results and dividends

The results are presented in the consolidated profit and loss account and notes thereto. An amount equal to the preference dividend due on 31 December 2003 was paid, however no dividend was paid on 30 June 2003 resulting in unpaid dividend arrears covering four half yearly payments. These are included under other reserves in the balance sheets.

## Directors

The directors, all of whom served throughout the year, are listed on page 20. Mr L E C Letts and Mr J R M Keatley retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## Directors' fees

Under the terms of the company's articles of association the directors may be paid for their services as directors such sums as the directors may from time to time determine not exceeding an annual aggregate amount of £15,000. Due to the increasing demands placed on non-executive directors, this limit is no longer consistent with the remuneration levels paid to non-executive directors in similar companies. Hence a resolution is to be placed

before the company in the forthcoming annual general meeting that this aggregate limit be increased to £100,000.

## Directors' interests

The interests of directors, together with those of members of their immediate families, at 31 December and 1 January 2003 in the 9 per cent cumulative preference shares of £1 each, the ordinary shares of 25p each and the 4 per cent convertible loan stock 2012 of the company, all of which were beneficial interests, were as follows:

	Preference shares	Ordinary shares	Convertible loan stock
31 December 2003:			
R M Robinow	62,144	109,719	10,000
J M Green-Armytage	2,455	55,861	-
J R M Keatley	1,701	520,980	77,733
L E C Letts	4,099	75,986	16,392
C L Lim	-	-	703,072
J C Oakley	384	61,983	1,000
1 January 2003:			
R M Robinow	62,144	95,100	10,000
J M Green-Armytage	2,455	44,881	-
J R M Keatley	1,701	443,369	77,733
L E C Letts	4,099	60,713	16,392
C L Lim	-	150,000	1,420,572
J C Oakley	384	52,510	1,000

At both 31 December and 1 January 2003, Mr Robinow and Mr Green-Armytage, together with members of their respective families, were interested in, respectively, 129,648 and 21,000 warrants of the company. Details of an option held by Mr Oakley to subscribe for ordinary shares of 25p each of the company are provided in the "Directors' remuneration report".

There were no changes in the interests of the directors detailed above between 31 December 2003 and the date of this report save that at the date of this report Mr Lim, together with the members of his family, had ceased to have any interest in the convertible loan stock of the company.

# Directors' report continued

## Supplier payment policy

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

## Substantial shareholders

As at the date of this report, the company has been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

	Number	%
Emba Holdings Limited	7,033,435	36.0
Alcatel Bell Pensioenfonds VZW	1,769,094	9.1

*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 agreed that it will not undertake activities in conflict with those of the group and that it will deal with the group only on a basis that is appropriate between a listed company and its subsidiaries and a significant shareholder.*

## Power to issue share capital

At the annual general meeting held on 26 June 2003, 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. Such authority will be limited to £2,434,397 nominal of share capital representing 23 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 £1,389,519 representing 28 per cent of the issued 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 £1,044,878. The authority will terminate on 6 July 2009. The directors have no present intention of exercising this 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 of ordinary shares to existing ordinary shareholders and holders of warrants and convertible loan stock without being obliged to comply with certain technical requirements of the Companies Act, which create problems with regard to fractions and overseas shareholders. In addition, the authority will give the board power to make issues of ordinary shares for cash other than by way of rights or open offer up to a maximum nominal amount of £397,000 representing 5 per cent of the issued ordinary share capital, together with the ordinary share capital which 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 2005, which will be no later than 15 months from the passing of the resolution granting this authority.

## Power to purchase own warrants

At the annual general meeting held on 26 June 2003 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 15 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 2005.

#### International financial reporting standards

All listed companies are required to present consolidated financial statements which comply with International Financial Reporting Standards ("IFRS") for accounting periods commencing on or after 1 January 2005. Hence the company's consolidated financial statements for 2005 will require comparative figures for 2004 that are presented under IFRS.

The company is undertaking a study to ascertain the changes that will result when its financial statements, currently prepared under UK GAAP, are prepared under IFRS.

The main difference between IFRS GAAP and UK GAAP which will affect the company is in respect of the agricultural component of its tangible fixed assets which under IFRS will be accounted for as a biological asset.

#### Auditors

At the last annual general meeting, Deloitte & Touche were appointed auditors. With effect from 1 August 2003, the business of Deloitte & Touche was transferred to Deloitte & Touche LLP and the directors appointed Deloitte & Touche LLP as auditors in replacement of Deloitte & Touche under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP 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.

By order of the board

**R.E.A. SERVICES LIMITED**

Secretary

28 April 2004



# Corporate governance

## General

Throughout the year ended 31 December 2003 the company has been in compliance with the provisions set out in section 1 of the Original Combined Code on Corporate Governance ("the Combined Code") except 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. For the year ending 31 December 2004 the company will be required to conform with the New Combined Code on Corporate Governance ("the New Combined Code" issued by the Financial Reporting Council in July 2003 and which comes into effect for reporting years beginning on or after 1 November 2003. The principle of the New Combined Code have been considered by the Board and steps are being taken to ensure compliance with the important aspects of the New Combined Code.

## Board of directors

The board currently comprises one executive director and five non-executive directors (four being independent). Details of the directors are set out in the "Directors" section of this report. The roles of chairman and managing director are separate. The chairman presently has limited other commitments.

The board is responsible for the proper management of the company. Two full board meetings are held each year, which due to the fact that two of the non-executive directors are based in Singapore, is considered adequate.

Other board meetings are held as necessary to consider corporate and operational matters with UK based non-executive directors present either in person or by telephone where appropriate. Minutes of all such meetings are circulated to all directors. Committee meetings are held as and when the situation requires such meetings. Full quarterly reports are issued to all 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. 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. 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 the directors.

## Board committees

The nomination committee comprises Mr Robinow and Mr Letts under the chairmanship of Mr Keatley. It is responsible for recommending appointments to the board. Recommendations from the committee are submitted for approval to the full board.

The audit committee comprises Mr Robinow and Mr Letts under the chairmanship of Mr Keatley. Whilst Mr Robinow is not an independent non-executive director, the board considers that, due to his current and relevant financial experience, it is essential that he be a member of the committee, as the independent non-executive directors do not share that experience.

The audit committee is responsible for:

- agreeing the external audit plans and the significant financial reporting issues and judgements.
- reviewing the objectivity, effectiveness and level of fees charged by the external auditors.
- receiving and reviewing reports from the external auditors and reviewing the audit representation letters.
- reviewing the annual and interim statements before publications.
- reviewing the internal audit process.

In addition, the audit committee has responsibility for ensuring that an appropriate relationship exists between the company and its auditors.

The present composition and details of the remuneration committee is shown in the "Directors' remuneration report" together with details of directors' remuneration, and the basis upon which such remuneration is determined.

#### Shareholder relations

The company is committed to maintaining good relations with all its shareholders through its annual report, interim report and such other circular letters to shareholders as circumstances may require. These seek to provide balanced information on the operational activities and financial affairs of the group. In addition, within the limits imposed by considerations of confidentiality, the company has regular conversations with its institutional shareholders. All shareholders are able to put questions to the board at the company's annual general meeting and, in addition, 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.

#### Audit and internal control

The "Chairman's statement" and "Group operations" sections of this report, when read in conjunction with the financial statements, "Directors' report" and "Directors' remuneration report", are designed to present a balanced and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditors in connection with the financial statements are detailed in the "Directors' responsibilities" section of this report.

The directors have overall responsibility for the group's system of internal control and reviewing its effectiveness. This includes financial, operational, compliance and risk management to safeguard the shareholders' investment and group's assets. The purpose of such system is to manage and control risk rather than to eliminate it and the system can provide only reasonable and not absolute assurance against material misstatement or loss.

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.

In compliance with provision D.2 of the Combined Code, 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. The review aims to identify and evaluate the significant risks faced by the group on an ongoing basis for the year under review and up to the date of the approval of the report and financial statements. The last review was on 29 September 2003. Following this review the board is satisfied that systems remain in place to safeguard the

# Corporate governance continued

assets and business of the group on the basis outlined in this report.

## Internal audit and reporting

The operating unit in Indonesia has an internal audit function, which reports at regular intervals throughout the year initially to the manager responsible for the internal audit function and subsequently to the deputy director of finance and the president director of PT R.E.A. Kaltim Plantations. *The function also reports to the board through the audit committee.* In the opinion of the board there is no need for an internal audit function outside of Indonesia due to the limited nature of operations there.

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 through the local senior executive to the managing director.

Local management reports to the board on a regular basis by way of the circulation of progress reports, management reports and management accounts and is required to seek authority from the board in respect of any transaction which is above the limits set for that location 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 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.

## 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.*

# Directors' remuneration report

## Introduction

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 describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the forthcoming 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

### The Remuneration Committee

The remuneration committee comprises two independent non-executive directors Mr J R M Keatley (chairman) and Mr L E C Letts together with Mr R M Robinow. 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 New 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 basic remuneration of all executive directors comprises a basic pensionable salary and certain benefits-in-kind, principally 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 50 per cent of salary and are paid in cash. There is no separate pension scheme for executive directors but the only current executive director is a member of the R.E.A. Pension Scheme.

# Directors' remuneration report continued

## Service contracts

The company's current 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 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 but thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2003, 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, no director taking part in the determination of his own remuneration. The level of remuneration is determined having regard to that paid by comparable organisations.

## Performance graph

A share performance graph is shown in the "Key statistics" section of this report. This 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 from January 1999 to December 2003. This index has been selected as there is no index available that is specific to the activities of the company.

## Audited information

### Directors' remuneration

The table below shows details of the remuneration of individual directors holding office during the year ended 31 December 2003 (with comparative totals for 2002):

	Salary and fees		2003	2002
	£'000	Other* £'000	Total £'000	Total £'000
R M Robinow	3	8	11	11
J C Oakley	172	98	270	211
J M Green-Armytage	-	-	-	-
J R M Keatley	7	-	7	2
L E C Letts	3	-	3	3
C L Lim	6	-	6	-
	191	106	297	227

\* comprises benefits and, in the case of Mr Oakley, a bonus of £78,000.

Furthermore, Mr Robinow, Mr Green-Armytage and Mr Letts were interested in service arrangements with companies whereby aggregate amounts were payable for 2003 of £225,000 (2002 £169,000) in respect of Mr Robinow, £7,000 (2002 £1,000) in respect of Mr Green-Armytage and £7,000 (2002 £9,000) in respect of Mr Letts.

### Director's pension entitlement - Mr J C Oakley

Mr Oakley (who was aged 55 at 31 December 2003) is an ordinary member of the R.E.A. Pension Scheme which is a defined benefits scheme of which details are shown in note 22 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 year	8,897
Accrued annual pension at year end	52,433
Pension transfer value at beginning of year	508,963
Pension transfer value at end of the year	661,612
Increase in pension transfer value in year*	143,265

\*net of member's contributions

### Share options - Mr J C Oakley

Pursuant to an agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each. There were no performance conditions attached to the grant of this option as the directors did not consider, in the particular circumstances in which the option was granted, that it would be appropriate to impose any conditions and the option was based on the full market value of the ordinary shares at the date of the grant.

Details of the option (which were the same at 1 January and 31 December 2003) are as follows:

Ordinary shares subject to option	1,000,000
Exercise price	45p
Date option may be exercised	22 May 2004
Date option expires	21 May 2012

The market price of the ordinary shares at 31 December 2003 was 237.5p, and the range during the year was 62p to 257.5p.



Approved by the board on 28 April 2004

**RICHARD M ROBINOW**

Chairman

# Directors' responsibilities

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

Company law requires directors to prepare accounts 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.

The directors are required in preparing the accounts 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 accounts.

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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

# Auditors' report

Independent auditors' report to the members of R.E.A. Holdings plc

We have audited the financial statements of R.E.A. Holdings plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the statement of total recognised gains and losses, the movement in total shareholders' funds, the consolidated cash flow statement, the reconciliation of net cash flows to net debt, the statement of accounting policies and the related notes numbered 1 to 28. The 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 the 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 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 company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report for the above year as described in the contents section including the audited part of the directors' remuneration report, and consider the implications for our report if we become aware of any apparent misstatement 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

# Auditors' report continued

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.

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 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.

## 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 as at 31 December 2003 and of the profit of the group for the year then ended and the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

### **DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors

London

28 April 2004

# Consolidated profit and loss account

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Turnover</b>	2	13,781	12,831
Cost of sales		(7,469)	(7,897)
Gross profit		6,312	4,934
Administrative expenses		(2,236)	(2,571)
<b>Group operating profit</b>	3	4,076	2,363
Disposal of fixed assets and investments - continuing	4	24	(6)
Disposal of fixed assets and investments - discontinued	4	(281)	(320)
Interest receivable and similar income		165	88
Interest payable	5	(1,914)	(669)
<b>Profit on ordinary activities before taxation</b>		2,070	1,456
Tax on profit on ordinary activities	7	(345)	(49)
<b>Profit on ordinary activities after taxation</b>		1,725	1,407
Minority interests (including non-equity interests)		(383)	(725)
<b>Profit for the financial year</b>		1,342	682
Non-equity dividends	8	(513)	(512)
<b>Retained profit for the year</b>	18	829	170
<b>Earnings per 25p ordinary share</b>	9		
Basic		5.1p	1.4p
Fully diluted		3.7p	1.3p

All operations in both years are continuing except where stated.

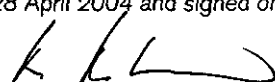
# Balance sheets

as at 31 December 2003

	Note	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
<b>Fixed assets</b>					
Tangible fixed assets	10	50,238	49,603	-	-
Investments	11	-	-	17,237	14,933
		50,238	49,603	17,237	14,933
<b>Current assets</b>					
Stocks	12	1,346	857	-	-
Debtors	13	3,710	4,544	11,031	6,946
Cash		6,790	5,156	83	890
		11,846	10,557	11,114	7,836
Creditors: falling due within one year	14	(15,244)	(13,765)	(1,131)	(2,029)
<b>Net current assets / (liabilities)</b>		<b>(3,398)</b>	<b>(3,208)</b>	<b>9,983</b>	<b>5,807</b>
<b>Total assets less current liabilities</b>		<b>46,840</b>	<b>46,395</b>	<b>27,220</b>	<b>20,740</b>
<b>Creditors: falling due after more than one year</b>					
Convertible debt	15	(3,463)	(3,419)	(3,463)	(3,419)
Other creditors	15	(15,312)	(21,134)	-	(53)
Provision for liabilities and charges	16	(288)	-	(288)	-
<b>Net assets</b>		<b>27,777</b>	<b>21,842</b>	<b>23,469</b>	<b>17,268</b>
<b>Capital and reserves</b>					
Called up share capital	17	10,376	8,887	10,376	8,887
Share premium account	18	4,665	1,233	4,665	1,233
Capital redemption reserve	18	3,240	3,240	3,240	3,240
Warrants	18	1,212	1,218	1,212	1,218
Revaluation reserve	18	(384)	(532)	1,129	(278)
Other reserve	18	1,027	768	1,027	768
Profit and loss account	18	3,333	2,454	1,820	2,200
<b>Total shareholders' funds</b>		<b>23,469</b>	<b>17,268</b>	<b>23,469</b>	<b>17,268</b>
Equity minority interests		2,002	2,010	-	-
Non-equity minority interests		2,306	2,564	-	-
<b>Total capital employed</b>		<b>27,777</b>	<b>21,842</b>	<b>23,469</b>	<b>17,268</b>
Shareholders' funds may be analysed as:					
Equity interests		16,737	11,563	16,737	11,563
Non-equity interests		6,732	5,705	6,732	5,705
		23,469	17,268	23,469	17,268

Approved by the board on 28 April 2004 and signed on behalf of the board.

**RICHARD M ROBINOW**  
Chairman



# Consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £'000	2002 £'000
<b>Profit for the financial year</b>	1,342	682
Currency translation adjustments	(2,175)	(1,611)
Revaluation adjustments	2,325	3,395
<b>Total recognised gains and losses</b>	<b>1,492</b>	<b>2,466</b>

There is no material difference between the profit on ordinary activities or the retained profit for the year as shown in the consolidated profit and loss account, and their historical cost equivalents.

## Movement in total shareholders' funds

for the year ended 31 December 2003

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Profit / (loss) for the financial year	1,342	682	133	(922)
Goodwill previously written off, reinstated	50	50	-	-
Dividends	(256)	-	(256)	-
Issue of shares	4,921	130	4,921	130
Redemption of warrants	(6)	-	(6)	-
Revaluation and foreign exchange translation	150	1,809	1,409	3,463
	6,201	2,671	6,201	2,671
Shareholders' funds at beginning of year	17,268	14,597	17,268	14,597
Shareholders' funds at end of year	23,469	17,268	23,469	17,268

# Consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Net cash inflow from operating activities</b>	19	7,259	1,035
Returns on investment and servicing of finance	20	(2,006)	(581)
Taxation		(11)	(101)
Capital expenditure and financial investment	20	(4,038)	(2,094)
Acquisitions and disposals	20	-	(560)
Equity dividends paid		-	-
<b>Cash inflow / (outflow) before management of liquid resources and financing</b>		1,204	(2,301)
Management of liquid resources		(4,226)	(3,315)
Financing	20	2,038	6,078
<b>(Decrease) / increase in cash in the year</b>		(984)	462

## Reconciliation of net cash flows to net debt

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
(Decrease) / increase in cash in the year		(984)	462
Cash inflow / (outflow) from debt and leases		2,863	(6,078)
Cash inflow from the management of liquid resources		4,226	3,315
		6,105	(2,301)
New debt and leases, net		(521)	727
Exchange		2,117	2,929
		7,701	1,355
Net debt at beginning of year		(27,912)	(29,267)
Net debt at end of year	21	(20,211)	(27,912)

# Accounting policies

for the year ended 31 December 2003

## Accounting convention

The financial statements have been prepared in accordance with accounting standards applicable in the United Kingdom. The principal accounting policies have been applied consistently. These are unchanged from the previous year.

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 a periodic external valuation using a seven year crop method.

All development costs on the estates are capitalised up to the point the estates are brought into use. This expenditure includes the cost of the Indonesian head office, buildings, equipment and road vehicles, personnel costs and local fees and expenses and related travelling expenses in connection with the development of the estates, and the cost 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 to 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

The company's investments in its subsidiaries 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.

# Accounting policies continued

for the year ended 31 December 2003

## Stock

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

## Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. 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 construction or installation of 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 their 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 attaching 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 UK 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 it is 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 the accounts

for the year ended 31 December 2003

## 1. Corporate transactions

In October 2003, Makassar Investments Limited made a rights issue on the basis of seven new ordinary shares for each existing ordinary share at a price of \$ 480 per new ordinary share. The company and its subsidiaries subscribed in full for the entitlements and also for the entitlements of the other shareholders by those shareholders, which were not taken up. This resulted in the subscription by the company and its subsidiaries of 14,249 new ordinary shares and in the group's equity interest in Makassar Investments Limited increasing to 87.74 per cent.

## 2. Segmental information

In the tables below, the group's turnover, net assets and profit before taxation are analysed by geographical area. No analysis is provided of these items by business class as with effect from 2002 the group has only operated within the agricultural sector with any other income being incidental to that activity. Comparative figures have been restated accordingly. Net assets are allocated to the area in which the activity related to the assets is located.

	2003 £'m	2002 £'m
<i>Turnover by geographical origin:</i>		
United Kingdom	0.2	0.2
Indonesia	13.6	12.6
	<hr/> 13.8	<hr/> 12.8
<i>Turnover by geographical destination:</i>		
United Kingdom	0.2	0.2
Indonesia	10.4	12.1
Other Asia	3.2	0.5
	<hr/> 13.8	<hr/> 12.8
<i>Net assets by geographical origin:</i>		
United Kingdom	(2.5)	(2.5)
Indonesia	30.3	23.8
Other Asia	-	0.5
	<hr/> 27.8	<hr/> 21.8
	2003 £'000	2002 £'000
<i>Profit by geographical origin:</i>		
United Kingdom	956	(380)
Indonesia	1,371	2,162
	<hr/> 2,327	<hr/> 1,782
Disposal of assets and investments (note 4)	(257)	(326)
	<hr/> 2,070	<hr/> 1,456

<b>3. Group operating profit</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Group operating profit is stated after charging:		
Depreciation - owned assets	1,974	1,578
Depreciation - leased assets	83	38
Amortisation of convertible loan stock issue costs	57	-
Operating lease rentals	53	53
Auditors' remuneration - audit fees	59	60
Auditors' remuneration - other	42	-

Earnings before interest, tax, depreciation and amortisation:		
Group operating profit	4,076	2,363
Depreciation	2,057	1,616
Amortisation	57	-
	<b>6,190</b>	<b>3,979</b>

<b>4. Disposal of assets and investments</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Loss on sale of investments	(231)	(270)
Profit / (loss) on sale of tangible fixed assets	24	(6)
Goodwill *	(50)	(50)
	<b>(257)</b>	<b>(326)</b>

Continuing	24	(6)
Discontinued	(281)	(320)
<b>Total</b>	<b>(257)</b>	<b>(326)</b>

\* written off direct to reserves on original acquisition and now included in the loss on disposal of the business.

<b>5. Interest payable</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable on bank loans and overdrafts	1,833	586
Interest payable on other loans	1,209	263
	<b>3,042</b>	<b>849</b>
Interest capitalised	(1,128)	(180)
	<b>1,914</b>	<b>669</b>

<b>6. Staff costs, including directors</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	2,984	3,216
Social security costs	144	186
Pension costs	127	124
	<b>3,255</b>	<b>3,526</b>

# Notes to the accounts continued

for the year ended 31 December 2003

6. Staff costs, including directors - continued	2003 Number	2002 Number
Average number of persons employed (including directors):		
Agricultural - permanent	2,281	2,785
Agricultural - temporary	506	468
Head office	6	6
	<u>2,793</u>	<u>3,259</u>

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

7. Taxation	2003 £'000	2002 £'000
The tax charge comprises:		
UK corporation tax charge for the year	-	-
Relief for overseas tax	-	-
Overseas tax	57	59
Adjustments in respect of prior periods	-	(10)
Current tax	57	49
Deferred tax	288	-
Tax charge on profit on ordinary activities	<u>345</u>	<u>49</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30 per cent (2002 - 30 per cent). The actual rate of the current tax charge is lower than the standard rate for the reasons set out in the following reconciliation.

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>2,070</u>	<u>1,456</u>
Tax on profit on ordinary activities at the standard rate	621	437
Tax effect of the following items:		
Expenses not deductible for tax purposes	66	23
Deferred tax asset not recognised	36	453
Timing differences subject to deferred tax (if provided)	(570)	(222)
Non taxable income	(71)	-
Utilisation of tax losses	(82)	(691)
Overseas tax	57	59
Adjustments to current tax charge in respect of prior periods	-	(10)
Current tax	<u>57</u>	<u>49</u>

Future tax charges may be affected by the following factors:

- due to the carry over of losses for tax purposes, 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 may exceed depreciation allowed for tax purposes.

## 8. Non-equity dividends

2003  
£'000

2002  
£'000

Preference dividend

513

512

No preference dividends were paid during the period from 31 December 2001 to 30 June 2003 and consequently dividends on the 9 per cent cumulative preference shares are in arrears for twenty four months in the amount of £1,027,000 (2002 £768,000).

## 9. Earnings per share

The calculations of basic and fully diluted earnings per 25p ordinary share are based on profits after non equity dividends and the average number of ordinary shares in issue during the year, adjusted as respects fully diluted earnings per 25p ordinary share for exercise of outstanding warrants and share option and conversion of the outstanding convertible loan stock.

	2003 Basic £'000	2003 Diluted £'000	2002 Basic £'000	2002 Diluted £'000
Profit after non-equity dividends	829	829	170	170
Interest saved on conversion of debt	-	106	-	-
	829	935	170	170

Number of shares ('000)	16,385	24,965	12,628	12,824
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## 10. Tangible fixed assets

	Estates, land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation:			
Beginning of year	47,180	6,042	53,222
Revaluations and foreign exchange	(2,209)	(754)	(2,963)
Additions	2,666	2,486	5,152
Transfers	402	(402)	-
Disposals	-	(92)	(92)
End of year	48,039	7,280	55,319
Accumulated depreciation:			
Beginning of year	2,109	1,510	3,619
Revaluations and foreign exchange	(348)	(171)	(519)
Charge for the year	1,615	442	2,057
Transfers	-	-	-
Disposals	-	(76)	(76)
End of year	3,376	1,705	5,081
Net book value at end of year	44,663	5,575	50,238
Net book value at beginning of year	45,071	4,532	49,603

Total interest payable is capitalised based on the ratio of the area of immature estates to that of mature estates. The percentage of the total interest capitalised during the year was 23.1 per cent (2002 9.2 per cent) with an average interest rate of 4 per cent (2002 3.5 per cent). The amount capitalised during the year is shown in note 5. Total interest capitalised to date is £12,133,000 (2002 £11,005,000). At the year end the net book value of finance leases, included above in plant and machinery, was £581,000 (2002 £225,000).

# Notes to the accounts continued

for the year ended 31 December 2003

## 10. Tangible fixed assets - continued

The estates were revalued by PT Cakra Hasta Konsultan, an independent external valuer in Indonesia, at 31 December 2003. 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:

	2003 Estates, land and buildings	2003 Plant and machinery	2002 Estates, land and buildings	2002 Plant and machinery
Cost	38,574	7,280	40,508	6,042
Depreciation	3,376	1,705	2,109	1,510
Net book value	35,198	5,575	38,399	4,532

At 31 December 2003, a revaluation surplus of £9,465,000 (2002 £6,672,000) 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 £2,840,000 (2002 £2,002,000).

## 11. Investments (company)

	Original cost £'000	2003 £'000	2002 £'000
Company			
Shares in subsidiaries	6,716	7,785	5,481
Loans to subsidiaries	9,452	9,452	9,452
	16,168	17,237	14,933

Loans to subsidiaries include a cash deposit of £3,779,000 (2002 - £3,779,000) funding a loan to a subsidiary.

	£'000
Beginning of year	14,933
Additions to shares in and loans to subsidiaries	897
Revaluation of investments in subsidiaries	1,407
End of year	17,237

The principal subsidiaries at the year end are listed below. Details of dormant subsidiaries are not shown. Except where indicated, all subsidiaries are incorporated in England and Wales.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	88
		Preferred	100
Makassar Participation plc	Sub holding company	Ordinary	100
		Preference	40
P.T. REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	88
R.E.A. Services Limited	Group services	Ordinary	100

27 per cent of the ordinary shareholding in Makassar Investments Limited and the entire shareholdings in Makassar Participation plc and R.E.A. Services Limited are held direct by the company. All other shareholdings are held by subsidiaries.

12. Stocks	2003 £'000	2002 £'000
Agricultural products	484	351
Engineering and other operational stocks	862	506
	<u>1,346</u>	<u>857</u>

13. Debtors	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Trade debtors	1,624	2,038	-	-
Amount owing to group undertakings	-	-	10,239	5,681
Other debtors	1,999	2,455	746	1,265
Prepayments and accrued income	87	51	46	-
	<u>3,710</u>	<u>4,544</u>	<u>11,031</u>	<u>6,946</u>

All debtors are due within one year.

14. Creditors: amounts falling due within one year	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank loans and overdrafts – agriculture	3,545	3,416	-	-
Loan to PT REA Kaltim Plantations*	4,567	5,078	-	-
Lease obligations	206	71	-	-
Trade creditors	428	739	-	-
Amount owing by group undertakings	-	-	969	1,601
Taxation and social security	275	321	73	-
Other creditors	2,855	1,703	63	428
Loan notes	26	-	26	-
Accruals	3,342	2,437	-	-
	<u>15,244</u>	<u>13,765</u>	<u>1,131</u>	<u>2,029</u>

\*from entities associated with Mr M E Zukerman.

A subsidiary has granted a fixed charge over certain of its fixed assets and a floating charge over stocks to secure bank borrowings of £13,575,000 (2002 £16,149,000) and had granted a fixed charge over certain other fixed assets to secure bank borrowings of £3,073,000 (2002 £3,416,000).

# Notes to the accounts continued

for the year ended 31 December 2003

15. Creditors: amounts falling due after more than one year	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Convertible debt – after five years	3,463	3,419	3,463	3,419
Other creditors:				
Bank loans	15,058	20,963	-	-
Other creditors	118	50	-	-
Loan notes	-	53	-	53
Finance lease obligations	136	68	-	-
	15,312	21,134	-	53
Analysis of loan obligations over one year:				
Between one and two years	2,169	3,602	-	-
Between two and five years	9,708	9,783	-	53
After five years	3,299	7,681	-	-
	15,176	21,066	-	53
Finance lease obligations:				
Between one and two years	99	60	-	-
Between two and five years	37	8	-	-
	15,312	21,134	-	53

Convertible debt represents 4 per cent convertible loan stock 2012 which, unless previously redeemed, is redeemable at par on 31 March 2012, the redemption amount, after allowing for loan stock already converted, being £3,785,444 (2002 £3,800,000). Such stock is or was convertible in the month of June of each of the years 2003 to 2012 (inclusive) and in January 2004 into ordinary shares of 25p each in the company at the option of holders at a conversion price of 53p per share. Stock converted during 2003 amounted to £14,556.

16. Provision for liabilities and charges	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Deferred taxation provision in respect of timing differences	288	-	288	-

17. Called up share capital	2003 £'000	2002 £'000
Authorised:		
6,750,000 - 9 per cent cumulative preference shares of £1 each	6,750	6,750
34,000,000 - ordinary shares of 25p each (2002 - 30,000,000)	8,500	7,500
	15,250	14,250
Called-up and fully paid:		
5,705,122 - 9 per cent cumulative preference shares of £1 each	5,705	5,705
18,682,671 - ordinary shares of 25p each (2002 - 12,727,578)	4,671	3,182
	10,376	8,887

## 17. Called up share capital - continued

### Changes in share capital:

- on 17 March 2003, the authorised capital was increased by £1,000,000 by the creation of 4,000,000 ordinary shares of 25p each, 2,470,185 ordinary shares of 25p each were allotted fully paid pursuant to an open offer to holders of ordinary shares, warrants and 4 per cent convertible loan stock 2012 at 73p per share and 2,150,000 ordinary shares of 25p each were allotted fully paid as a result of a placing also at 73p per share.
- on 9 July 2003, 27,464 ordinary shares of 25p each were allotted fully paid on conversion of £14,556 nominal of 4 per cent convertible loan stock 2012.
- on 8 August 2003, 7,444 ordinary shares of 25p each were allotted fully paid in satisfaction of warrant rights exercised by warrant holders to subscribe for ordinary shares in cash at 73.5p per share.
- on 23 September 2003, 1,300,000 ordinary shares of 25p each were allotted fully paid by way of a placing at 146p per share, payable in cash, to T Hoare Nominees Limited 805 A/C THNES. The market price of the ordinary shares on 15 September 2003 when the terms of the placing were fixed was 160p per share.

At the year end there were 1,616,907 (2002 1,624,351) warrants, having an issue premium of £1,212,000 (2002 £1,218,000). Each warrant entitles the holder in each year until 2013 to acquire one new ordinary share of 25p at a price of 73.5p, by subscription of that amount in cash or by surrender of 0.735 9 per cent cumulative preference shares of £1 each.

Non equity shareholders' funds relate to 9 per cent cumulative preference shares of £1 each with voting rights only if the semi-annual dividend payable on those shares is six months or more in arrears.

## 18. Movement in reserves

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Exchange reserve £'000	Other reserve £'000	Profit and loss account £'000
Group:						
Beginning of year	1,233	3,240	4,455	(4,987)	768	2,454
Revaluation	-	-	2,325	-	-	-
Issue of new ordinary shares	3,417	-	-	-	-	-
Conversion on convertible loan stock	6	-	-	-	-	-
Conversion of warrants	9	-	-	-	-	-
Goodwill previously written off to reserves	-	-	-	-	-	50
Foreign exchange translation	-	-	-	(2,177)	-	-
Non-equity dividends in arrears	-	-	-	-	259	-
Retained profit for the year	-	-	-	-	-	829
End of year	4,665	3,240	6,780	(7,164)	1,027	3,333

# Notes to the accounts continued

for the year ended 31 December 2003

18. Movement in reserves - continued	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Exchange reserve £'000	Other reserve £'000	Profit and loss account £'000
Company:						
Beginning of year	1,233	3,240	(278)	-	768	2,200
Revaluation and exchange	-	-	1,407	-	-	-
Issue of new ordinary shares	3,417	-	-	-	-	-
Conversion on convertible loan stock	6	-	-	-	-	-
Conversion of warrants	9	-	-	-	-	-
Non-equity dividends in arrears	-	-	-	-	259	-
Retained loss for the year	-	-	-	-	-	(380)
End of year	4,665	3,240	1,129	-	1,027	1,820

Aggregate goodwill of £50,000 (2002 £50,000) has been written off to profit and loss account.

Warrants in issue had a book value of £1,212,000 (2002 £1,218,000).

Other reserve represents non equity dividends in arrears.

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 profit before dividends recognised in the company's profit and loss account is £133,000 (2002 loss £922,000).

19. Reconciliation of operating profit to operating cash flows	2003 £'000	2002 £'000
Operating profit	4,076	2,363
Depreciation and amortisation (note 3)	2,114	1,616
(Increase) / decrease in stocks	(573)	350
Increase in debtors	(379)	(1,513)
Increase / (decrease) in creditors	1,942	(1,216)
Exchange gain / (loss)	79	(565)
Net cash inflow from operating activities	7,259	1,035

20. Analysis of cash flows	2003 £'000	2002 £'000
Returns on investment and servicing of finance:		
Interest received	165	88
Interest paid	(1,914)	(669)
Preference dividends paid	(257)	-
Dividends paid to minority shareholders	-	-
	<u>(2,006)</u>	<u>(581)</u>
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(4,675)	(2,154)
Sale of tangible fixed assets	40	60
Sale of investments	597	-
	<u>(4,038)</u>	<u>(2,094)</u>
Acquisitions and disposals:		
Purchase of further shares in subsidiary companies	-	(560)
Financing:		
Issue of ordinary share capital and expenses	4,901	(5)
Issue of convertible loan stock and expenses	-	3,419
Net (repayment) of debt over one year	(2,619)	2,815
Finance lease repayments	(244)	(151)
	<u>2,038</u>	<u>6,078</u>

21. Net debt	Opening £'000	Cash flow £'000	Other £'000	Exchange £'000	Closing £'000
Cash	1,740	(984)	-	(39)	717
Bank deposits	3,416	4,226	(950)	(619)	6,073
Debt up to one year	(8,494)	27	(525)	854	(8,138)
Debt more than one year - convertible	(3,419)	-	(44)	-	(3,463)
Debt more than one year - other	(21,016)	2,592	1,475	1,891	(15,058)
Finance leases	(139)	244	(477)	30	(342)
	<u>(27,912)</u>	<u>6,105</u>	<u>(521)</u>	<u>2,117</u>	<u>(20,211)</u>

# Notes to the accounts continued

for the year ended 31 December 2003

## 21. Net debt - continued

	2003	2002
	£'000	£'000
Currency profile of group net debt:		
Debt and finance leases:		
Sterling	(3,496)	(3,419)
US dollar	(23,196)	(29,649)
Indonesian rupiah	(309)	-
	(27,001)	(33,068)
Cash and short term deposits:		
Sterling	69	24
US dollar	6,536	4,535
Indonesian rupiah	185	597
	6,790	5,156
<b>Net debt</b>	<b>(20,211)</b>	<b>(27,912)</b>
Interest rate profile of group net debt:		
Debt and finance leases:		
Fixed rate - 4%	(3,489)	(3,472)
Floating rate	(23,512)	(29,596)
	(27,001)	(33,068)
Cash and short term deposits	6,790	5,156
<b>Net debt</b>	<b>(20,211)</b>	<b>(27,912)</b>
Average interest rate on deposit	1.0%	2.6%

The floating rate financial liabilities bore interest at applicable bank and money market rates.

## 22. Commitments

	2003	2002
	£'000	£'000
Group commitments for capital expenditure contracted but not provided for	187	1,804
Company and group operating leases (annual charge)	44	44

## 23. Financial instruments and risks

### Financial instruments

The group's financial instruments comprise preference shares, borrowings, cash and liquid resources, and preference shares and in addition certain 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. The table below provides an analysis of the fair values of financial assets and liabilities excluding debtors and creditors.

	2003 Book value £'000	2003 Fair value £'000	2002 Book value £'000	2002 Fair value £'000
Cash and deposits	6,790	6,790	5,156	5,156
Debt - within one year	(3,571)	(3,571)	(8,494)	(8,494)
Debt - after more than one year	(23,088)	(23,411)	(24,435)	(24,816)
Finance leases	(342)	(342)	(139)	(139)
Net debt - book value/fair value	(20,211)	(20,534)	(27,912)	(28,293)
Preference shares	(5,705)	(5,705)	(5,705)	(4,279)
	(25,916)	(26,239)	(33,617)	(32,572)

### Risks

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. These policies have remained unchanged since the beginning of the year.

It is, and has been throughout the year, the group's policy that no trading in financial instruments shall be undertaken. On occasions, the group enters into short term forward contracts for the sale of crude palm oil.

The group finances its operations through a mixture of retained profits, bank and other borrowings, both at fixed and floating rates, and credit from suppliers. Other than the convertible loan stock, most of the group's borrowings are in respect of its investment in fixed assets of the agricultural business and are denominated in US dollars. As such assets are also denominated in US dollars, there is no material currency exposure on these borrowings.

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 is 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 2003 profit before tax by £270,000 (2002 - £270,000).

The group's operations are based in East Kalimantan, Indonesia. Whilst the economic, political and social conditions in Indonesia are substantially more stable than in the past, it has to be recognised that such risks cannot be ignored altogether, particularly if there is a deterioration in these conditions in the future.

# Notes to the accounts continued

for the year ended 31 December 2003

## 24. 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 scheme with assets held in a trustee-administered fund, which has participating employers outside of the group.

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, which is the same as the amount paid, is as stated in note 6 and there are no outstanding or prepaid contributions at the balance sheet date.

The Scheme was last actuarially assessed, using the attained age method, as at 1 January 2003; previous valuations having been assessed using the projected unit method. The principal assumptions adopted in the 2003 valuation were an annual investment return of 6.5 per cent pre-retirement and 5.2 per cent post retirement, an annual increase in pensionable salaries of 3.3 per cent and an annual increase in present and future pensions and in the retail price index of 2.3 per cent. The overall valuation deficit applicable to all participants was £3,439,000, which is to be funded by special contributions by the participating employers over a period of 15 years.

The normal contribution rate payable by the group from 1 January 2004 is 20.9 per cent of pensionable salaries and the special contribution for 2004 will be £135,000, which will rise by 5 per cent per annum thereafter. This rate and amount are subject to review at future actuarial valuations. For 2003 the contribution rate payable by the group was 22.1 per cent of which the normal contribution rate was 17.7 per cent with the balance of 4.4 per cent an additional contribution rate to make up a previous valuation deficit.

## 25. Related party transactions

During 2003 and 2002, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report".

Emba Holdings Limited provided on demand unsecured loans to the group as at 31 December 2002 of £290,000.

## 26. Rates of exchange

	2003 Closing	2003 Average	2002 Closing	2002 Average
Indonesia rupiah to pound sterling	15,077	14,065	14,393	14,006
US dollar to pound sterling	1.79	1.64	1.61	1.51

## 27. Subsequent events

Since 31 December 2003, the group has arranged new loan funding from an Indonesian bank with which to complete the restructuring of its bank debt. The group has now achieved a position in which no event of default can be declared on any of its bank indebtedness in respect of any event of default that has arisen to-date.

In February 2004, 857,737 ordinary shares were issued upon conversion notices having been received from holders of convertible loan stock.

## 28. Contingent liability

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.

# Notice of annual general meeting

Notice is hereby given that the forty fourth annual general meeting of the company will be held at the London office of Ashurst at Broadwalk House, 5 Appold Street, London EC2A 2HA on 7 July 2004, 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 2003.
- 2 To approve the directors' remuneration report for the year ended 31 December 2003.
- 3 To re-elect as a director Mr L E C Letts, who retires by rotation.
- 4 To re-elect as a director Mr J R M Keatley, who retires by rotation.
- 5 To re-appoint Deloitte & Touche LLP, chartered accountants, 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 of which 6 to 8 will be proposed as ordinary resolutions and resolution 9 will be proposed as a special resolution:

### 6 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 £1,389,519 such authority to expire on 6 July 2009;
- (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 £1,044,878 such authority to expire 6 July 2009;

- (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 annual general meeting of the company held on 26 June 2003, which authority is hereby revoked.
- 7 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
  - (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.
- 8 That the aggregate limit on the amount of fees that may be paid to the directors for their services as directors pursuant to article 94(A) of the articles of association be and is hereby increased to £100,000.
- 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 6 set out in the notice of the annual general meeting of the company to be held in 2004, 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 2005, 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 £397,000; 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.

By order of the board

**R.E.A. SERVICES LIMITED**

Secretary

28 April 2004



#### Notes

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.