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R.E.A. HOLDINGS PLC - ANNUAL REPORT  
**2006**

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06/06/2007  
COMPANIES HOUSE

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# Officers and professional advisers

## Directors

R M Robinow  
J C Oakley  
J M Green-Armytage  
J R M Keatley  
D H R Killick  
L E C Letts  
C L Lim

## Secretary and registered office

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## Financial advisers

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Athene Place  
66 Shoe Lane  
London EC4A 3BQ

## Stockbrokers

Mirabaud Securities Limited  
21 St James's Square  
London SW1Y 4JP

## Solicitors

Ashurst  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

## Auditors

Deloitte & Touche LLP  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

## Registrars and transfer office

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

## Registered number

00671099 (England and Wales)

# Maps showing operational area

*Map removed at request of Companies House*

# Summary of results

for the year ended 31 December 2006

	2006 £'000	2005 £'000	Change %
Revenue	17,833	14,944	+ 19
Earnings before interest, tax, depreciation, amortisation and biological gain*	7,384	7,372	-
Profit before tax	10,625	9,622	+ 10
Profit after tax	7,454	6,299	+ 18
Profit attributable to ordinary shareholders	6,208	4,520	+ 37
<hr/>			
See note 3 to consolidated financial statements			
Earnings per ordinary share (diluted)	20.3p	16.7p	+ 22

Closing exchange rates	2006	2005	2004	2003	2002
Indonesian rupiah to US dollar	9,020	9,830	9,290	8,465	8,940
US dollar to pound sterling	1.96	1.72	1.92	1.79	1.61

# Key statistics

for the year ended 31 December 2006

	2006	2005	2004	2003	2002
Allocated area - Hectares					
Mature oil palm	13,080	13,085	13,142	13,234	12,334
Immature oil palm (developed in prior years)	5,250	3,000	-	-	900
Immature oil palm (developed in current year)	6,564	2,250	3,000	-	-
Under preparation for oil palm development	6,500	6,000	4,500	3,000	-
	31,394	24,335	20,642	16,234	13,234
Reserve area (fully titled)	3,822	10,881	8,763	11,594	14,594
Reserve area (surveyed and awaiting full title)	30,200	10,920	16,030	10,000	13,782
Reserve area (under negotiation)	-	20,000	-	6,500	-
Total	65,416	66,136	45,435	44,328	41,610

## Production - Tonnes

Oil palm fresh fruit bunch crop	334,076	313,355	293,883	222,713	199,184
Crude palm oil	77,597	73,262	71,473	55,426	49,604
Palm kernel	12,698	12,647	12,169	9,189	9,094
Total palm products	90,295	85,909	83,642	64,615	58,698
Oil extraction rate	23.2%	23.4%	24.3%	24.9%	24.9%
Kernel extraction rate	3.8%	4.0%	4.1%	4.1%	4.6%

## Yields - Tonnes per mature hectare

Fresh fruit bunches	25.5	23.8	22.4	16.8	16.1
Crude palm oil	5.9	5.6	5.4	4.2	4.0
Palm kernel	1.0	1.0	0.9	0.7	0.7
Total palm products	6.9	6.6	6.3	4.9	4.7

Crude palm oil monthly average price

*Graph removed at request of Companies House*

Share performance graph

*Graph removed at request of Companies House*

# Chairman's statement

## Presentation of annual report

The accompanying consolidated financial statements of the company are presented in accordance with International Financial Reporting Standards ("IFRS"). The company continues to prepare its individual financial statements in accordance with UK Generally Accepted Accounting Practice and, as was the case in the annual report for 2005, to present those statements separately from the consolidated financial statements.

## Results

Profit before tax for 2006, as shown in the accompanying consolidated income statement, amounted to £10,625,000 representing a 10 per cent increase over the profit before tax of the preceding year of £9,622,000.

The 2006 results were struck after significantly higher administrative expenses than in 2005 (£3.00 million against £1.57 million). This was principally caused by two factors: a requirement to provide for national insurance in respect of a director's outstanding share options to reflect increases in the company's ordinary share price, and an exchange loss of £503,000 resulting from the appreciation of sterling against the US dollar during 2006 (2005 gain of £505,000).

Gains on revaluation of biological assets were again an important component of the reported profits and amounted to £4.68 million against £4.13 million in 2005. In both years, the gains principally reflected projected increases in future production arising from the continuing extension planting programme and the increasing maturity of existing planted areas.

At the after tax level, profit for the year at £7.45 million was 18 per cent ahead of the £6.30 million achieved in 2005. The percentage increase in profit attributable to ordinary shareholders was materially higher at 37 per cent. This was the consequence of a reduction in profit attributable to minority interests following the company's acquisition, in early 2006, of the former 12.3 per cent

minority interest in the company's subsidiary, Makassar Investments Limited ("Makassar").

## Operations

The crop outturn for 2006 amounted to 334,076 tonnes of oil palm fresh fruit bunches ("FFB") and represented an increase of some 6.6 per cent on the FFB crop for 2005 of 313,355 tonnes but a shortfall of 5.4 per cent on the 2006 budgeted FFB crop of 353,000 tonnes.

The failure to achieve the budgeted FFB crop is attributed by the directors to reduced rainfall in the second half of the year, coupled with a normal cyclic depression in the cropping cycle, resulting in lower cropping levels in the second half. Rainfall for 2006 as a whole amounted to 2,967 mm. Whilst this was considerably lower than the rainfall of the preceding year, which was closer to 5,000 mm, it was still well above the minimum level of rainfall generally regarded as necessary for oil palm cultivation. However, the pattern of rainfall during the year was characteristic of an El Niño weather event. The usual onset of rains in September was delayed until November while December rainfall was unevenly distributed.

The crude palm oil ("CPO") and palm kernel extraction rates for 2006 were, respectively, 23.2 per cent and 3.8 per cent as compared with the rates of 23.4 per cent and 4.0 per cent achieved in 2005. The CPO extraction rate for 2005 was itself a reduction on the CPO extraction rates achieved by the group in earlier years and this was attributed by the directors to very damp conditions during 2005 inhibiting the weevil activity upon which cross-pollination depends, leading to poor fruit set. The effects of this continued to be felt during the early months of 2006 so that the CPO extraction rate for the first half of 2006 remained low. With fruit quality returning to normal during the second half, CPO extraction rates steadily improved and in the final quarter exceeded 24 per cent. Rates have continued to improve in the first quarter of 2007. As with the CPO extraction rate, the palm kernel

extraction rate for 2006 was negatively affected by poor fruit set.

The group's second palm oil mill was brought into production as planned in the second half of 2006 and provides additional capacity needed to process the FFB crops that will be harvested from the areas coming into production from 2007 onwards. The second mill incorporates, within the overall facility, a palm kernel crushing plant in which the palm kernel output from both oil mills can be further processed to extract the crude palm kernel oil ("CPKO") that the palm kernels contain. The second oil mill has the capacity to generate more electrical power than is needed for the mill's processing of FFB and the surplus capacity is utilised to power the kernel crushing plant. Although the kernel crushing plant was commissioned at the same time as the second oil mill, commercial production of CPKO was delayed by initial teething problems with the filtration equipment installed. These have now been resolved and the plant has moved to full scale production from the start of 2007.

Delays to land clearing operations during 2005 meant that of the development programme originally planned for 2005, development of 2,250 hectares was carried forward. The development programme for 2006 was to complete this balance together with a further 3,750 hectares giving a total target of 6,000 hectares. Actual development completed in 2006 in fact amounted to some 6,500 hectares taking the total developed area of the group's estates at 31 December 2006 to just under 25,000 hectares.

The directors had originally planned that the extension planting development target for 2007 should be 7,000 hectares but have now reduced that target by the 500 hectare excess over target achieved in 2006. Accordingly, the 2007 extension planting development target for 2007 has been set at 6,500 hectares. This represents an ambitious planting target but the achievement of the 2006 development target provides encouragement that the group has the logistical capacity to manage this scale of extension planting. Successful

implementation of the full 2007 development programme will, however, depend upon the titling of land allocations held by the group proceeding as planned so that land becomes available for development in time, and to an extent sufficient, to meet the requirements of the development programme (as should be the case if the titling process proceeds in accordance with the anticipated timetable).

The group continues to seek allocation of additional areas suitable for planting with oil palms within the vicinity of its existing operations. Discussions have recently commenced in respect of two new prospective areas within the Province of East Kalimantan and are continuing in respect of a land area of 8,000 hectares.

#### Sustainability

The continuing expansion of the group's operations is bringing with it increasing social obligations. The group has always been committed to ensuring the sustainability of its operations. Development to date has followed an environmental master plan that was based on a detailed environmental assessment made by independent experts in 1995 and since periodically updated. Furthermore the group has for many years helped local communities both by providing staff and equipment on an ad hoc basis to assist community development and by encouraging and supporting smallholder programmes. With the growth in the group's operations, it was decided during 2006 that additional dedicated management would be required to meet the many demands that sustainability requirements place on responsible oil palm producers and a start has been made in recruiting personnel with the specific skills needed to meet the high standards that the group aims to achieve.

#### Finance

In the first quarter of 2006, the longstanding dispute between the group and Mr M E Zukerman and his associated interests (the "the MEZ group") was finally resolved with the payment by the group to the MEZ group

# Chairman's statement continued

of \$6,000,000 in cash, in settlement of various claims by the MEZ group, and the acquisition by the company, for a consideration of \$19,000,000, of the minority interest in Makassar formerly owned by the MEZ group. This consideration was satisfied by the issue by the company to the MEZ group of \$19,000,000 nominal of 75 per cent dollar notes 2012/14 ("dollar notes")

Between February and May 2006, the company issued a total of 4,200,000 new ordinary shares and 3,000,000 new preference shares for cash to raise some £13,400,000, net of expenses. Of these monies, \$6,000,000 was applied in refinancing the \$6,000,000 payment to the MEZ group and \$5,700,000 in funding liquidation distributions to third party shareholders in the company's subsidiary, Makassar Participation plc, which was then wound up.

Proposals agreed in April 2006 with the holders of the company's then outstanding 1,548,807 warrants resulted in the subsequent exercise by or on behalf of warrant holders of all such warrants with a consequent cash inflow to the company of some £876,000. A further net cash inflow of \$5,400,000 was received by the company during July and August 2006 from the completion of the dollar note offering programme, with the issue of a further \$6,000,000 nominal of dollar notes increasing the nominal amount of dollar notes in issue to the full \$30,000,000 originally authorised.

In December 2006, £15,000,000 of a proposed total issue of £22,000,000 nominal of 95 per cent guaranteed sterling notes 2015/17 ("sterling notes") were issued for cash at a subscription price of 98.33 per cent of par by REA Finance BV ("REA Finance"), a wholly owned subsidiary of the company formed for the purposes of this issue.

The early months of 2007 have seen further significant changes in the group's indebtedness. In January 2007, REA Finance issued a further £7,000,000 nominal of

sterling notes at 99.6574 per cent of par to increase the nominal amount of sterling notes in issue to the full £22,000,000 that had initially been proposed. Subsequently, the group was successful in arranging a nine year sterling US dollar debt swap to convert the sterling proceeds of the sterling note issue to US dollars while hedging the currency risk of the continuing sterling liability represented by the notes. Following that debt swap, \$12.25 million of bank loans was prepaid. Normal repayments of bank indebtedness in 2007 to-date have amounted to a further \$5.25 million.

The combined effect of the foregoing transactions has been to eliminate all group minority interests, other than interests representing local investor participations in Indonesia, and to provide the group with substantial longer term debt financing. On the basis of present CPO prices, the directors expect that operating cash flows for the remainder of 2007, together with the group's existing cash resources, will exceed the amount required to fund both the planned development programme for the year and near term debt repayments. However, looking beyond 2007 and allowing for the fact that CPO prices may not be sustained at present levels, the group is likely to require a modest amount of further funding if, as the directors hope will be the case, extension planting is continued at a high level. It was announced on 1 May 2007 that the company had arranged conditionally to place 1,500,000 new ordinary shares at 450p per share and that the net proceeds of this placing would be applied towards meeting the probable requirement.

## Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2006 were duly paid.

An interim dividend in lieu of final in respect of 2006 of 1p per ordinary share was declared by the directors on 20 December 2006 and paid on 9 February 2007. This was

the first ordinary dividend paid by the group since early 2000 and reflected the directors' confidence that the group's improving financial situation and prospects could support the resumption of ordinary dividends

#### Staff

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

#### Prospects

The directors do not believe that the unusual pattern of 2006 rainfall will have resulted in anything more than minor water deficits in some estate areas. Accordingly, the FFB crop for 2007 has been budgeted at 380,000 tonnes with the expected increase over 2006 reflecting a budgetary assumption of average rainfall (both as to quantum and distribution) and the maturing of the 3,000 hectares of oil palms planted by the group in 2004 (being the first extension planting by the group under the new extension planting programme initiated in 2003). The directors anticipate that crops for 2007 will be weighted towards the second half of the year. Crops to end April 2007 were approximately 5,000 tonnes below budget but, as the monthly phasing of each year's crop varies from year to year, this should not be taken as indicating a likelihood that the FFB crop for 2007 as a whole will be below budget.

The CPO price, spot CIF Rotterdam, rose strongly in the second half of 2006 to finish the year at slightly over \$600 per tonne. Prices have remained firm going into 2007 and have further strengthened in recent weeks to above \$700 per tonne following a period of lower than expected CPO production in Malaysia and optimistic forecasts about additional medium term demand for CPO and other vegetable oils from the bio-diesel market. A strong increase in ethanol production capacity worldwide has resulted in markedly increased corn prices and it has been forecast that this will lead to increased plantings of

corn, particularly in North America. It may be expected that additional corn hectareage will be planted at the expense of soybean in which case a reduction in the present plentiful stock of soybeans worldwide is likely.

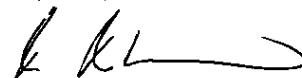
Whilst expectations of bio-fuel demand and concerns over availability of feedstock have probably been the dominant factors in the recent increase in CPO prices, the CPO market is currently also benefiting from health concerns in relation to trans-fatty acids. Such acids are formed when vegetable oils are artificially hardened by hydrogenation. Poly-unsaturated oils, such as soyabean oil, rape oil and sunflower oil, require hydrogenation before they can be used for shortening or other solid fat applications but CPO does not.

The group took advantage of firm CPO prices to sell forward some 20 per cent of its projected production for the period to June 2008 at an average price of \$620 per tonne CIF Rotterdam. It remains dependent upon future CPO prices as respects the balance of its production but if, as now appears possible, CPO prices remain at or near current levels, the directors are optimistic that 2007 will prove another good year for the group.

Continuing cost inflation in Indonesia has to be an area of some concern to the group but this concern is for the moment more than outweighed by positive factors. The group now has an established operating base and a solid financial structure, the plantings of recent years are coming to maturity and the group has realistic prospects of being able to continue its extension planting programme at a rapid rate for several years to come. The directors therefore see the group as having a bright future.

#### **RICHARD M ROBINOW**

Chairman  
2 May 2007



# Review of the group

## Introduction

The directors present to shareholders of REA Holdings plc the review of the group set out below. This review has been prepared solely to provide shareholders as a body with information complementing the accompanying financial statements in order to facilitate understanding of the group's business and strategic objectives and to permit assessment of the likelihood of the group realising those objectives. This review should not be relied upon by any other party or for any other purpose.

This review contains forward-looking statements which have been included by the directors in good faith based on the information available to them up to the time of their approval of this review. Such statements should be treated with caution due to the uncertainties, including both economic and business risks, that are inherent in any prognosis regarding the future.

In preparing this review, the directors have sought to follow best practice as recommended by the reporting statement on operating and financial reviews published by the Accounting Standards Board but this review has not been checked for compliance with that reporting statement by the company's auditors and may not comply with it in all respects. The directors have relied on qualitative rather than quantitative assessments in relation to environmental and social matters. In the context of the current scale of the group's operations, the directors consider qualitative assessment an appropriate evaluation of the group's performance in these areas.

This review has been prepared for the group as a whole and therefore gives emphasis to those matters that are significant to the company and its subsidiaries when taken together. The review is divided into five sections: overview, operations, sustainability, finances, and risks and uncertainties.

## Overview

### Nature of business and resources

The group is engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms. A detailed description of the group's activities is provided under "Operations" below.

The group and predecessor businesses have been involved for over one hundred years in the operation of agricultural estates growing a variety of crops in developing countries in South East Asia and elsewhere. The group today sees itself as marrying developed world capital and Indonesian opportunity by offering investors and lenders to the company the transparency of a UK listed company and then using capital raised through the company to develop significant agricultural operations in Indonesia. In this endeavour, the group's inheritance from its past represents a significant intangible resource because it underpins the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project expansion and in recruiting management of a high calibre.

Other resources that are important to the group are its developed base of operations, bringing with it an established management team and trained workforce, and the group's potential land bank.

### Objectives

The group's objective is to provide attractive overall returns to investors in the shares and other securities of the company from the operation and expansion of the group's existing business, while honouring the group's social obligation to facilitate economic progress in the locality of the group's activities and to develop the group's operations in a responsible and sustainable manner.

Realisation of this objective is dependent upon the group's ability to generate the increasing operating profits that will be needed to finance such realisation

Since CPO is a primary commodity, its price is determined by world supply and demand. The CPO price may, and does, fluctuate in ways that are difficult to predict and which the group cannot control. As its strategy for increasing operating profits, the group therefore seeks to increase crops and to minimise unit production costs with the expectation that the lower cost producer of CPO is better placed to weather any downturn in price. To this end, the group has adopted a two pronged approach

First, the group aims to capitalise on its principal resources by developing the group's land bank as rapidly as logistical and financial constraints permit with a view to utilising the group's existing management capacity to manage a larger business. Secondly, the group strives to manage its established operations as productively as possible. Ancillary to the first component of this approach, the group seeks to add to its land bank when circumstances permit

As an additional financial objective, the group aims to enhance returns to equity investors in the company by procuring that a prudent proportion of the group's funding requirements is met with prior charge capital in the form of fixed interest preferred capital and debt

The group recognises that it is dependent upon a single site operation producing a single product. This permits significant economies of scale but brings with it risks. The directors have in the past considered, and remain open to the possibility of, some limited diversification into another crop or another area within easy reach of the existing operational areas. The directors do not, however, regard such diversification as a strategic imperative and a decision to diversify would be taken only if the prospective returns from capital invested in diversification were comparable with those likely to be achieved by

investment of equivalent capital in continued expansion of the oil palm operations in the existing operational areas

#### Evaluation of performance

In seeking to meet its expansion and efficiency objectives, the group sets operating standards and targets for most aspects of its activities and regularly monitors performance against those standards and targets. In many aspects of the group's activities, there is no single standard or target that, in isolation from other standards and targets, can be taken as providing an accurate continuing indicator of strategic progress. Rather a collection of measures have to be evaluated and a qualitative conclusion reached

The directors do, however, rely on regular reporting of certain operational progress items that are comparable from one year to the next and may be regarded as key indicators of operating performance. These indicators for any given period comprise

- the new extension planting area developed, this is measured as the area in hectares of land cleared and planted out or cleared and prepared for planting out during the applicable period,
- the crop of fresh fruit bunches ("FFB") harvested, this is measured as the weight in tonnes of FFB delivered to the group's oil mills during the applicable period, and
- the CPO extraction rate achieved, this is measured as the percentage by weight of CPO extracted from the FFB crop of the applicable period

Of these indicators, the first provides a measure of the group's performance against its expansion objective. The second and third indicators are measures of field and mill efficiency and, as such, provide a basis for assessing the extent to which the group is achieving its objective of maximising output from its operations

# Review of the group continued

Quantifications of the above three indicators for 2006 and comparable quantifications for 2005 (in both cases as sourced from the group's internal management reports) are provided under "Land development" and "Crops and extraction rates" in "Operations" below together with targets for 2007. Qualitative comment on the group's social objectives is also provided below in "Operations" under "Employment and social obligations" and in "Sustainability".

Key indicators used by the directors in evaluating the group's financial performance for any given period comprise

- return on adjusted equity, this is measured as profit before tax for the period less amounts attributable to preferred capital expressed as a percentage of average total equity (less preferred capital) for the period, and
- net debt to total equity which is measured as borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity

Because of the group's material dependence on CPO prices, which have a direct impact on revenues and on periodic revaluations of biological assets, in targeting return on total equity the directors set a norm that they hope will represent an average of the annual returns achieved over a period of seven years.

Percentages for the above two indicators for 2006 and comparable figures for 2005 (derived from figures extracted from the audited consolidated financial statements of the company) are provided under "Group results" and "Financing policies" in "Finances" below, together with target percentages.

## Operations

### Ownership structure

All of the group's operations are located in East Kalimantan. The primary operations are owned through

PT REA Kaltim Plantations ("REA Kaltim") in which a group company holds a 100 per cent economic interest. In addition, in line with Indonesian government policy encouraging foreign investors to facilitate local participation in their investments, the group is establishing ancillary operations with ownership participation by local Indonesian interests. Development of a first such operation is being undertaken through PT Sasana Yudha Bhakti ("SYB") which is owned 95 per cent by a group company and 5 per cent by a local East Kalimantan investor. A second such operation is being established through PT Kartanegara Kumala Sakti ("KKS"), which is owned as to 95 per cent by a group company and as to 5 per cent by other East Kalimantan local investors.

### Area of operations

The group's operations are being developed pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to support the development by the group, for its own account and in co-operation with local interests, of land concessions of up to 125,000 hectares. The areas allocated to date comprise 30,106 hectares allocated to REA Kaltim, 15,130 hectares allocated to SYB and some 20,000 hectares allocated to KKS. The SYB and KKS areas are contiguous with the REA Kaltim areas so that the three areas together form a single site.

The operations are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. At present, access to the operations can be obtained only by river and by air but the completion in 2005 of a road bridge over the Mahakam should eventually permit road access as well.

Although the 1991 understanding established a basis for the release of land for development by or in cooperation with the group, 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 broadly reflects the pace of development.

To date, full *hgu* land title certificates have been issued in respect of the entire 30,106 hectares allocated to REA Kaltim and 5,110 hectares of the land areas allocated to SYB. The process leading to the issue of full *hgu* land title certificates in respect of the balance of the land areas held by SYB and to the KKS land areas is being actively pursued. In the case of the SYB areas, this process has taken very much longer than the directors originally anticipated. In large part this has been because of repeated changes in recent years to the procedures for obtaining land titles as much of the authority for granting titles has devolved from the Indonesian central government to the Indonesian provincial governments. The group has now been informed that three separate titles to the untitled balance of the SYB areas will be issued progressively over the remaining months of 2007. It is hoped that titling of the KKS areas will proceed concurrently.

The group continues to seek allocation of additional areas suitable for planting with oil palms within the vicinity of its existing operations. Discussions have recently commenced in respect of two new prospective areas within the Province of East Kalimantan and are continuing in respect of a land area of 8,000 hectares.

#### Land development

Mature plantings at 31 December 2006 comprised 13,080 hectares, all of which lie within the REA Kaltim areas and derive from plantings initiated between 1994 and 1997. Following the economic and subsequent political destabilisation of Indonesia that occurred during

1997 and early 1998, and the negative effect of that destabilisation on the general availability of finance for development, REA Kaltim suspended all new development and, from then onwards for several years, concentrated its available resources on carrying to maturity the areas that had previously been planted or prepared for planting. By 2003 most of such areas had finally reached maturity and were achieving profitable cropping levels so that the group felt able to resume development and initiated an extension planting programme.

Development of new areas requires a one year lead time in which to procure seed, to develop the seedlings to be planted out and undertake preparatory work on the area to be planted. Accordingly the first extension planting under the new programme took place in 2004 when a total area of some 3,000 hectares was developed.

Target development for 2005 was 4,500 hectares. However, land clearing operations were delayed by representations from certain affected local villagers seeking to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected individuals had been successfully allayed, by abnormally high rainfall in the last quarter of 2005. As a result, land development during 2005 amounted to only 2,250 hectares. The balance of 2,250 hectares of the 2005 development programme was carried forward.

The development programme for 2006 was to complete the balance carried forward from 2005 together with a further 3,750 hectares giving an overall target of 6,000 hectares. Actual development completed in 2006 amounted to some 6,500 hectares taking the total developed area of the group's estates at 31 December 2006 to just under 25,000 hectares.

The directors had originally planned that the extension planting development target for 2007 should be 7,000 hectares but have now reduced that target by the 500 hectare excess over target achieved in 2006.

# Review of the group continued

Accordingly, the 2007 extension planting development target has been set at 6,500 hectares. This represents an ambitious target but the achievement of the 2006 development target provides encouragement that the group has the logistical capacity to manage this scale of extension planting. Successful implementation of the full 2007 development programme will, however, depend upon the titling of land allocations held by the group proceeding as planned so that land becomes available for development in time, and to an extent sufficient, to meet the requirements of the development programme (as should be the case if the titling process proceeds in accordance with the anticipated timetable).

Cost inflation in Indonesia is impacting development costs but extension planting in areas adjacent to the existing developed areas still offers the prospect of attractive returns. Accordingly, it is the directors' intention that, beyond 2007, the group should continue its expansion and should seek to plant with oil palms all suitable undeveloped land available to the group (other than areas set aside by the group for conservation) as rapidly as financial and logistical constraints permit. Such expansion will, however, involve a series of discrete annual decisions as to the area to be planted in each forthcoming year and the rate of planting may be accelerated or scaled back in the light of prevailing circumstances.

## Processing

The group now operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The first mill began operating in late 1998 with an initial capacity of 30 tonnes of FFB per hour. This has since been expanded to a present capacity of 80 tonnes per hour. The second mill was brought into production as planned in the second half of 2006 and provides additional capacity needed to process the FFB crops that will be harvested from the areas coming into production from 2007 onwards. The second mill has an initial capacity of

40 tonnes per hour, expandable in due course to 80 tonnes per hour by the installation of a second 40 tonne per hour processing line.

The group's second oil mill incorporates, within the overall facility, a palm kernel crushing plant in which the palm kernel output from both oil mills can be further processed to extract the crude palm kernel oil ("CPKO") that the palm kernels contain. The second oil mill has the capacity to generate more electrical power than is needed for the mill's processing of FFB, and the surplus capacity is utilised to power the kernel crushing plant. Although the kernel crushing plant was commissioned at the same time as the second oil mill, commercial production of CPKO was delayed by initial teething problems with the filtration equipment installed. These have now been resolved and the plant has moved to full scale production from the start of 2007. Processing kernels into CPKO reduces transport volumes and improves overall returns.

The group operates its own fleet of barges for transport of CPO, palm kernels and CPKO. The fleet is used in conjunction with tank storage adjacent to the oil mills and a transshipment terminal owned by the group downstream of the port of Samarinda. Prior to 2006, palm products were normally transported by barge from the upstream operations to the transshipment terminal and were then collected from that terminal by buyers. However, during 2006, the group expanded its barge fleet by time-chartering a 3,000 tonne barge, double the size of the largest barge previously operated by the group. This has expanded the group's delivery options as the new barge can be used for voyages to Malaysia and other parts of Indonesia. This means that the group can now deliver CPO and CPKO sold to customers in Malaysia and other parts of Indonesia to such customers' nominated destinations. Results to date suggest that this greater flexibility of delivery options is improving the net prices, FOB port of Samarinda, that the group is able to realise. It also allows the group to make sales without the collection delays sometimes experienced with FOB buyers.

A trial made in 2005 established that it is both feasible and economic to use the barge fleet to transfer CPO from the Samarinda transshipment terminal to ships anchored offshore outside the port of Samarinda. This provides access to vessels of much greater tonnage than the vessels that can be loaded within the port of Samarinda (which are effectively limited to 6,000 tonnes) and permits the group to ship palm products to Europe

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 palm product outputs at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. To reduce the extra cost that this involves, in 2003 the group acquired a downstream riverside site on which to establish a permanent loading point for use during dry periods. The necessary loading facilities will be developed following completion of a government road that will provide access to the site. Recent progress on the government road has however been slow

#### Crops and extraction rates

FFB crops for the years from 2002 to 2006 are shown in the "Key statistics" section of this annual report. The crop outturn for 2006 amounted to 334,076 tonnes and represented an increase of 6.6 per cent on the FFB crop for 2005 of 313,355 tonnes but a shortfall of 5.4 per cent on the 2006 budgeted FFB crop of 353,000 tonnes

The failure to achieve the budgeted FFB crop is attributed by the directors to reduced rainfall in the second half of the year, coupled with a normal cyclic depression in the cropping cycle, resulting in lower cropping levels in the second half. Rainfall for 2006 as a whole amounted to 2,967 mm. Whilst this was considerably lower than the rainfall of the preceding year, which was closer to 5,000 mm, it was still well above the minimum level of rainfall generally regarded as necessary

for oil palm cultivation. However, the pattern of rainfall during the year was characteristic of an El Niño weather event. The usual onset of rains in September was delayed until November, while December rainfall was unevenly distributed.

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 group's estates. Yields per hectare climb rapidly during the first four years of production to a peak level that on average is around 24 tonnes per hectare. Production then remains at or close to this peak level for ten years or more, declining gradually over the last six to eight years of the oil palm's 25 year economic life. The group has achieved yields in excess of 29 tonnes per hectare from fully mature plantings indicating that, in years when cropping is not materially affected by abnormal weather conditions, an average peak yield across all plantings will materially exceed 24 tonnes per hectare.

The directors do not believe that the unusual pattern of 2006 rainfall will have resulted in anything more than minor water deficits in some estate areas. Accordingly, the FFB crop for 2007 has been budgeted at 380,000 tonnes with the expected increase over 2006 reflecting a budgetary assumption of average rainfall (both as to quantum and distribution) and the maturing of the 3,000 hectares of oil palms planted by the group in 2004 (being the first extension planting by the group under the new extension planting programme initiated in 2003). The directors anticipate that crops for 2007 will be weighted towards the second half of the year. Crops to end April 2007 were approximately 5,000 tonnes below budget but, as the monthly phasing of each year's crop varies from year to year, this should not be taken as indicating a likelihood that the FFB crop for 2007 as a whole will be below budget.

The CPO extraction rate for 2006 was 23.2 per cent as compared with the rate achieved in 2005 of 23.4 per

# Review of the group continued

cent. The CPO extraction rate for 2005 was itself lower than the rates achieved by the group in earlier years. This was attributed by the directors to very damp conditions during 2005 inhibiting the weevil activity upon which cross-pollination depends, leading to poor fruit set. The effects of this continued to be felt during the early months of 2006 so that the CPO extraction rate for the first half of 2006 remained low. With fruit quality returning to normal during the second half, CPO extraction rates steadily improved and in the final quarter exceeded 24 per cent. Rates have continued to improve in the first quarter of 2007. The group has set a target CPO extraction rate of not less than 24 per cent which, in years when weather conditions are not abnormal, has generally been achieved (and which may be regarded as very satisfactory against industry norms).

The palm kernel extraction rate for 2006 (being measured as the percentage by weight of palm kernels extracted from the FFB crop for the year) was 38 per cent, marginally lower than the rate of 40 per cent achieved in 2005. As with the CPO extraction rate, the palm kernel extraction rate for 2006 was negatively affected by poor fruit set. The directors have previously set a target palm kernel extraction rate under normal operating conditions of 45 per cent but have concluded from the group's experience of recent years that this is a little high. They have therefore adjusted the target rate to 40 per cent.

## Revenues and markets

Around 85 per cent by weight of oil palm product output is represented by CPO and the balance by palm kernels. Accordingly, the group's revenues are critically dependent on CPO prices.

According to Oil World, CPO production in the year to 30 September 2006 totalled 35.9 million tonnes, representing some 24.3 per cent of the total world production of the 17 major vegetable and animal oils and fats for the same period of 147.6 million tonnes. The

principal competitors of CPO are the oils from the annual oilseed crops, the most significant of which are soybean, oilseed rape and sunflower. As annual crops, the production from those three oilseed crops can be adjusted much more rapidly to movements in prevailing market prices than production of CPO. In some areas (such as the EU) the economics of growing oilseed crops are distorted by subsidies but the directors nevertheless believe that fundamental market factors still drive the overall levels of annual oilseed 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 and animal oils and fats. According to Oil World, worldwide consumption of vegetable and animal oils and fats increased by 6.3 per cent to 145.9 million tonnes in the year to 30 September 2006. The annual increase of 8.7 million tonnes that this represented is significantly in excess of the average annual growth in consumption of some 5.3 million tonnes in the preceding three year period. Major uses of vegetable and animal oils and fats have conventionally been for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. A new use for vegetable oil, which is currently assuming an increasing importance in worldwide demand, is bio-fuels. In particular, bio-diesel demand has accounted for the unprecedented year on year increase in consumption of vegetable oils that has been seen in each of the last two years.

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 monthly average price over the ten years has moved between a high of \$671 per tonne and a low of \$286 per tonne. The monthly average price over the ten years as a whole has been \$445 per tonne.

The CPO price, spot CIF Rotterdam, traded in the range \$420 to \$440 per tonne during the first half of the year but then rose strongly in the second half to finish the year at slightly over \$600 per tonne resulting in an average price for 2006 of \$478 per tonne, some 13 per cent more than the 2005 average. Prices have remained firm going into 2007 and have further strengthened in recent weeks to over \$700 per tonne following a period of lower than expected CPO production in Malaysia and optimistic forecasts about additional medium term demand from the bio-diesel market. A strong increase in ethanol production capacity worldwide has resulted in markedly increased corn prices and it has been forecast that this will lead to increased plantings of corn, particularly in North America. It may be expected that additional corn hectareage will be planted at the expense of soybean, in which case a reduction in the present plentiful stock of soybeans worldwide is likely.

Whilst expectations of bio-fuel demand and concerns over availability have probably been the dominant factors in the recent increase in CPO prices, the CPO market is currently also benefiting from health concerns in relation to trans-fatty acids. Such acids are formed when vegetable oils are artificially hardened by hydrogenation. Poly-unsaturated oils, such as soyabean oil, rape oil and sunflower oil, require hydrogenation before they can be used for shortening or other solid fat applications but CPO does not.

Freight rates remained steady during most of 2006. The average US dollar FOB price per tonne realised by the group in respect of 2006 sales of CPO was approximately 9 per cent higher than that of 2005.

In 2006, approximately 77 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 23 per cent was exported. FOB prices realised for CPO in the local market during 2006 were for the most part marginally higher than those available in the export market but, as sales volumes continue to increase, the group wishes to ensure that it can access the larger

CPO markets available internationally when necessary. Export sales have hitherto been concentrated within the South East Asian region but the access to larger vessels provided by loading ships anchored offshore from Samarinda (as referred to under "Processing" above) should permit the group to expand its export markets to Europe and other more distant destinations if this would provide a price advantage.

As a general rule, all CPO produced by the group is sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO production for a forthcoming period of twelve months. At the date of this review, the group had sold forward some 20 per cent of the production anticipated for the period to June 2008 at an average price of \$620 per tonne CIF Rotterdam.

During 2006 and pending the kernel crushing plant becoming fully operational, palm kernels were sold to Indonesian processors located mainly in the islands of Java and Sumatra and to processors in Peninsular Malaysia.

#### Cost base

The group's revenue costs principally comprise direct costs of harvesting, processing and despatch, direct costs of upkeep of mature areas, estate and central overheads in Indonesia, the overheads of the UK head office, and financing costs. Whilst direct costs vary to an extent with crops harvested and the area under cultivation, the crop related component of costs is not a high proportion of the total. Therefore, for any given total area under cultivation, costs are for the most part fixed.

The directors believe that the group's senior management team has the capacity to manage a larger area than is currently under cultivation and do not therefore expect a proportionate increase in fixed costs as a result of the

# Review of the group continued

planned extension planting programme. Increases in local costs are, however, resulting in some inflation in costs in US dollar terms because the higher Indonesian rupiah costs that such increases are causing are not being compensated by a commensurate depreciation in the value of the Indonesian rupiah against the US dollar.

Particular factors affecting current Indonesian operating costs are the direct impact of a tripling of diesel oil prices following the removal of state subsidies in 2005 and wage inflation, itself partly attributable to increases in the cost of living induced by the higher diesel prices. Operating efficiencies achievable from the growing production volumes, coupled with the better absorption of overheads that expansion of planted areas permits, do, however, provide some scope for mitigating the resultant impact on margins.

## Employees

With the expansion of the group's operations, the group is steadily increasing its permanent workforce. At the end of 2006, the permanent workforce numbered some 3,900. That is sufficient for the current level of operational activity but further recruitment will be required as the 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. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and creches. The group operates its own health service with medical facilities in each village and a central hospital. Active support for measures to control endemic diseases such as malaria has resulted in a reduction in the incidence of such diseases in recent years.

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 are run as part of the human resource development function. Particular emphasis is placed on health and safety and the group is constantly seeking to upgrade the measures in place to protect its workforce and visitors to its operations.

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 was instituted. These graduates join the cadet training programme. Those successfully completing this twelve months' programme, which provides a grounding in all aspects of oil palm estate management, are offered positions as assistant managers. The recruitment programme for cadets is sized each year to reflect the future management needs of the extension planting programme and to allow for staff turnover.

Training programmes constructed and operated out of the group's own training school are targeted primarily at lower and middle management levels. The group recognises the importance of developing management skills at all levels and is endeavouring to extend the scope of the ongoing training programme to include the external provision of management development programmes for the group's senior Indonesian management.

## The Indonesian context

During 2006, the Indonesian domestic economy continued to expand at a moderate rate and the more stable political situation referred to in last year's annual report continued. Indonesia's cost base increased materially in 2005 following the abolition of fuel subsidies and a further material increase in domestic costs was experienced during the year. Having strengthened against the US dollar during 2005, the Indonesian rupiah remained firm during 2006 and early 2007 and this,

together with higher domestic costs, has undoubtedly reduced the country's international cost competitiveness. This has had a negative impact on foreign direct investment. On the other hand, it appears that Indonesia's economic and political situation is being viewed more positively and that the country's ability to access international debt markets is improving.

Rationally Indonesia's economic policies should include the encouragement of those US dollar earning export industries that 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, other minerals and timber and, with a plentiful supply of land and labour, agriculture can be a major foreign currency earner. In particular, the Indonesian oil palm industry continues to have significant competitive advantage over its Malaysian counterpart and over producers of those vegetable oils derived from the annual oilseed crops. This appears to be recognised by the current Indonesian government and it must be hoped that it will maintain an economic environment in which the oil palm industry can continue to thrive. The directors are encouraged by the government's announced commitment during the year to the development of a domestic bio-diesel industry based on locally produced CPO and believe that this will further emphasise the importance to Indonesia of its oil palm industry.

The province of East Kalimantan remained stable and prosperous throughout 2006. The province benefits from a large natural resource base, low population and near full employment. In particular, the coal mining industry has developed rapidly in recent years. Although, as noted under "Area of operations" above, the devolution of authority from central government to provincial governments that has resulted from the Indonesian regional autonomy legislation of recent years has brought with it increased bureaucracy in some areas (in particular land titling), it has also brought benefits to outlying provinces such as East Kalimantan in providing increased resources for provincial development. One benefit of this

of importance to the group is the continuing investment within the province in roads and other infrastructural development.

## Sustainability

### Smallholder programmes

The group is active in assisting local villages to establish their own smallholdings of oil palm on a co-operative basis. At 31 December 2006, some 1,040 hectares of smallholder plantings adjacent to the group's operations had been established across nine local villages, an increase of 420 hectares during the year. Interest from the local village communities in the cultivation of oil palm as a secure long term livelihood continues to increase each year as the smallholder programmes gather pace. The group is committed to a material expansion of the oil palm areas cultivated by the local village communities and active discussions are presently under way for the establishment of several new schemes during 2007.

Under the current smallholder model, each farmer cultivates oil palm on his own two hectare plot with the group providing technical advice through a management team dedicated to the smallholder development programme. Fertilisers and chemicals are supplied by the group to smallholders on deferred terms. In due course, each smallholder farmer will sell his FFB production to the group for processing and the group will, on an agreed basis, recover from the sale proceeds the deferred amounts owed by the farmer to the group.

The ethnic background of the communities living in the vicinity of the group's operations varies materially from village to village, and this and other factors result in varying levels of interest in smallholder farming. The group is currently seeking to develop an alternative structure to the conventional smallholder co-operative model with a view to providing a mechanism that will enable those village communities whose lifestyle and culture are not conducive to involvement in smallholder

# Review of the group continued

co-operatives to benefit from the economic opportunities afforded by oil palm development

The availability of some local government funding for the group's smallholder programmes has been a most welcome support for those programmes in recent years. The directors hope that such local government funding will continue. However, the provision of bank finance for future smallholder development is 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 nominated large plantations (known as "nucleus estates") acted as agents of the banks in relation to the advances. Following the Asian financial crisis in 1998, such schemes were discontinued. The group therefore continues to seek smallholder loans by direct negotiation with local banks. Very recently, the central government has launched a new scheme aimed at providing loan financing to co-operative smallholder schemes engaged in the cultivation of the oil palm. This scheme is presently being evaluated by the group.

## Community development

The group believes that successfully involving itself in community development will be key to the future growth and success of its plantation operations. For many years, the group has provided staff and equipment on an ad hoc basis to give support to the local community. Such support has typically involved the repair and maintenance of community roads and facilities, the enhancement and repair of water and electricity supplies and advice on agricultural matters. During 2006, it was decided that a more formal and planned approach should be taken. As a result, a small specialist management team has been recruited specifically to formulate and manage the group's community development initiatives and community development programmes are now taking two forms.

First, the new specialist team is engaging in regular discussion with government, at both local and central level, in order to identify and develop areas where the communities local to the group's estates can obtain government assistance and funding for community development projects. It is hoped that, with the group's help, local communities can be made fully aware of the range of government rural assistance programmes available to them and that the group can act as a catalyst in helping local communities to avail themselves of the benefits that such programmes could bring.

Secondly, the new specialist team has a day to day presence on the ground, visiting local communities and developing small scale self-help projects with individual groups of villagers. The group has allocated a specific budget to assist in financing these self-help programmes, which to date have included chicken rearing, fish farming and fruit cultivation. The proximity of the sizeable workforce resident on the group's estates provides a readily accessible local market for the produce arising from such schemes.

## Conservation

The group continues to follow the environmental master plan that it originally developed, on the basis of a detailed environmental impact assessment made in 1995 by independent experts, and has since periodically updated after taking external advice. Designated conservation areas, aimed at preserving established wildlife trails, were retained within the operational areas during their 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 most recent update to environmental master plan, completed in 2005, fully supported the ecological value of the conservation programme followed to-date and recommended that it be continued in all future development areas.

As with community development, the group has decided to take a more formal approach to management of

conservation issues. Accordingly, it has recruited an internationally recognised conservation expert to formalise, and establish a team to manage, the group's continuing conservation programme. In addition, and to give formal effect to an expectation of the environmental master plan, the group has set aside for its conservation programme an area of some 3,000 hectares forming a single block and lying at the south eastern extremity of the group's fully titled land areas. The directors hope that some valuable conservation programmes can be developed as a result of this significant commitment.

The group recognises its social obligations in relation to pollution and energy efficiency. The group operates a zero burning policy in relation to land development and, in dry periods, maintains active fire patrols in an effort to limit the risks of accidental fires. Corridors are used to separate all plantings from water courses and the latter are regularly monitored to ensure that they are not contaminated by leaching of fertilisers and pesticides. The group actively promotes integrated pest management throughout its operations. Wherever possible, natural predators are preferred to pesticides for pest control. In particular, the group now uses feral cats rather than baits to control the rat population in its oil palm plantings and has planted selective varieties of flowering plants to promote the population of wasps, the natural predators of bagworm and caterpillars.

All processing waste is recycled. Oil mill effluent is treated in effluent ponds and after treatment is distributed within the oil palm areas as a substitute for inorganic fertiliser. Empty fruit bunches are similarly distributed. Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. This steam is then used to drive steam turbines and to reduce dependence on fossil fuels for power. The group is currently reviewing the recommendations from an external consultant as respects centralisation of electricity generation and the establishment of an electrical distribution network as an alternative to using diesel generators in each estate

village for the provision of electrical power. An evaluation is also to take place in 2007 of the potential for reducing carbon emissions from the CPO production process. This work will focus initially on the recovery of methane from the mill effluent ponds. It is hoped that carbon credits can be obtained to provide financial support for this initiative.

#### General

Sustainability is an area of major importance for the oil palm industry as a whole. The group recognises the importance of developing the competences needed to meet the many demands that sustainability requirements place on responsible oil palm producers. Many of these competences lie outside the skill sets that have traditionally been required of plantation operators and must therefore be acquired by adding management with the specific skills needed to meet the highest standards of sustainability. As part of its commitment to achieving best practice, the group engages independent external consultants from Malaysia to review annually the effectiveness of the group's sustainability programmes.

#### Finances

##### Accounting policies

The accompanying consolidated financial statements for the year ended 31 December 2006 are presented in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies applied by the company under IFRS are set out in the "Accounting policies (group)" section of this annual report. The accounting policy relating to biological assets (comprising oil palm plantings and nurseries) is of particular importance. Such assets are not depreciated but are instead restated at fair value at each reporting date and the movement on valuation over the reporting period, after adjustment for additions and disposals, is taken to income. Deferred tax is provided or credited as appropriate in respect of each such movement.

# Review of the group continued

The fair value of the biological assets at 31 December 2006 has been derived by the directors on a discounted cash flow basis (using a discount rate of 17.5 per cent) by reference to the FFB expected to be harvested from the group's oil palms over the full remaining productive life of the palms and an estimated profit margin. That margin has been based on current costs and an estimated produce value for transfer to mill derived from a twenty year average of historic CPO prices (being \$402 per tonne of CPO, FOB port of Samarinda). The fair value at the preceding year end was similarly derived except that the discount rate applied was 19.0 per cent and that a ten rather than twenty year average of CPO prices was used (the resultant average being \$413 per tonne). The directors have considered it appropriate to reduce the discount rate to reflect the increasing maturity of the group's operations (and thus reducing completion risk). The change from a twenty year to a ten year price average has no material effect on the valuation at 31 December 2006 but brings the group more into line with the valuation methodology adopted by other plantation groups growing oil palms.

The directors recognise that the IFRS accounting policy in relation to biological assets does have considerable theoretical merits in charging each year to income a proper measure of capital consumed (so that, for example, a fair distinction is drawn each year between the cost of the shortening life expectancy of younger plantings still capable of many years of cropping and that of older plantings nearing the end of their productive lives). It does, however, concern the directors that no estimate of fair value can ever be completely accurate (particularly in a business in which selling prices and costs are subject to very material fluctuations) and that small differences in valuation assumptions can have a quite disproportionate effect on results. The biological assets are recorded in the group balance sheet at 31 December 2006 at £73.2 million. A 5 per cent difference in that valuation would therefore have a £3.7 million impact on the reported profit before tax.

The company is continuing to prepare its individual financial statements in accordance with UK Generally Accepted Accounting Practice, accordingly these are presented separately from the consolidated financial statements.

## Group results

Group operating profit for 2006 amounted to £11.17 million and profit before tax to £10.63 million against the comparable figures of the preceding year of £10.68 million and £9.62 million.

The principal movements in operating profit reported in 2006 were an increase in gross profit of £1.47 million (£9.77 million against £8.30 million), an increase in income movements on biological assets of £0.54 million (£4.68 million against £4.13 million) and an increase in administrative expenses of £1.43 million (£3.00 million against £1.57 million). The movement in gross profit reflected a combination of increased production and better selling prices, partly offset by inflationary cost pressures (as referred to under "Cost base" in "Operations" above). The value of biological assets continued to benefit from projected increases in future production resulting from the continuing extension planting programme and increasing maturity of existing planted areas. The higher administrative costs were principally caused by two factors, a requirement to provide for national insurance in respect of a director's outstanding share options to reflect increases in the company's share price and an exchange loss of £503,000 (2005 gain of £505,000).

As discussed under "Currency" in "Risks and uncertainties" below, the group is inherently exposed to a currency risk in relation to the sterling US dollar exchange rate and does not normally hedge against that risk. The strengthening of sterling against the US dollar that occurred over 2006 thus had a negative effect on the group and resulted in the exchange loss charged to administrative costs.

Interest payable in 2006 (before deduction of the interest component added to biological assets) amounted to £330 million against £172 million in 2005. The increased charge principally reflected higher levels of group indebtedness during 2006 as compared with the previous year resulting from the issues of debt securities made by the group during 2006 as detailed under "Capital structure" below. Interest cover for 2006 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, and biological gain to interest payable) was 2.3 against 4.3 for 2005.

The group continues to have substantial tax losses carried forward mainly due to capital and other expenditure being allowed for tax purposes in advance of being expensed for reporting purposes. Accordingly, the 2006 provision for current tax amounted only to £119,000 (against £79,000 for 2005). Provision for deferred tax on timing differences and on the biological gain accounted for the balance of the 2006 tax charge (as also in 2005).

At the after tax level, profit for the year at £745 million was 18 per cent ahead of the £630 million achieved in 2005 but the percentage increase in profit attributable to ordinary shareholders was materially higher at 37 per cent. This was the consequence of a reduction in profit attributable to minority interests following the company's acquisition of the former 12.3 per cent minority interest in the company's subsidiary, Makassar Investments Limited ("Makassar").

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2006 was 25 per cent against 28 per cent for 2005.

#### Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2006 were duly paid. Absent an unforeseen material adverse change in the group's

circumstances, the directors intend that all future semi-annual dividends on the preference shares should be paid as they fall due.

An interim dividend in lieu of final of 1 p per ordinary share in respect of 2006 was declared by the directors on 20 December 2006 and paid on 9 February 2007. This was the first ordinary dividend paid by the group since early 2000 and reflected the directors' confidence that the group's improving financial situation and prospects could support the resumption of ordinary dividends. The group continues to face continuing demands for cash to finance its substantial extension planting programme but the directors recognise that it is important for many shareholders that they receive sustainable dividends from their shareholdings.

#### Capital structure

The group is financed by a combination of debt and equity (which under IFRS includes minority interests and the company's preference capital). Total equity less minority interests at 31 December 2006 amounted to £53.53 million as compared with £37.63 million at 31 December 2005. Minority interests amounted at those dates to, respectively, £0.31 million and £6.51 million.

In the first quarter of 2006, the longstanding dispute between the group and Mr M. E. Zukerman and his associated interests (the "the MEZ group") was finally resolved with the payment by the group to the MEZ group of \$6,000,000 in cash, in settlement of various claims by the MEZ group, and the acquisition by the company, for a consideration of \$19,000,000, of the minority interest in Makassar formerly owned by the MEZ group. This consideration was satisfied by the issue by the company to the MEZ group of \$19,000,000 nominal of 75 per cent dollar notes 2012/14 ("dollar notes").

Between February and May 2006, the company issued a total of 4,200,000 new ordinary shares and 3,000,000 new preference shares for cash, to raise some

# Review of the group continued

£13,400,000, net of expenses. Of these monies, \$6,000,000 was applied in refinancing the \$6,000,000 payment to the MEZ group and \$5,700,000 in funding liquidation distributions to third party shareholders in the company's subsidiary, Makassar Participation plc, which was then wound up.

Proposals agreed in April 2006 with the holders of the company's then outstanding 1,548,807 warrants resulted in the subsequent exercise by or on behalf of warrant holders of all such warrants, with a consequent cash inflow to the company of some £876,000. A further net cash inflow of \$5,400,000 was received by the company during July and August 2006 from the completion of the dollar note offering programme, with the issue of a further \$6,000,000 nominal of dollar notes increasing the nominal amount of dollar notes in issue to the full \$30,000,000 originally authorised.

In December 2006, £15,000,000 of a proposed total issue of £22,000,000 nominal of 95 per cent guaranteed sterling notes 2015/17 ("sterling notes") were issued for cash at a subscription price of 98.33 per cent of par by REA Finance BV ("REA Finance"), a wholly owned subsidiary of the company formed for the purposes of this issue.

The combined effect of the foregoing transactions was to eliminate all group minority interests, other than interests representing local investor participations in Indonesia, and to provide the group with substantial longer term debt financing. As a result, group indebtedness at 31 December 2006 amounted to £49.89 million, made up of US dollar denominated bank loans of £20.79 million, sterling notes of £13.98 million, dollar notes of £14.95 million and obligations under finance leases of £0.17 million. Against this indebtedness, at 31 December 2006 the group held cash and cash equivalents of £19.01 million.

The early months of 2007 have seen further significant changes in the group's indebtedness. In January 2007,

REA Finance issued a further £7,000,000 nominal of sterling notes at 99.6574 per cent of par, to increase the nominal amount of sterling notes in issue to the full £22,000,000 proposed. Subsequently, the group was successful in arranging a nine year sterling US dollar debt swap to convert the sterling proceeds of the sterling note issue to US dollars, while hedging the currency risk of the continuing sterling liability represented by the notes. Following that debt swap, \$12.25 million of bank loans was prepaid. Normal repayments of bank indebtedness in 2007 to-date have amounted to a further \$5.25 million. As a result of the foregoing, group indebtedness, excluding obligations under finance leases, now comprises £22 million nominal of sterling notes, \$30 million of dollar notes and \$21.25 million of US dollar denominated bank loans drawn under a loan facility in Indonesia provided by a consortium of three banks.

The sterling notes are secured principally on unsecured loans made by REA Finance to REA Kaltim, are guaranteed by the company and are repayable by three equal annual instalments commencing 31 December 2015. The dollar notes are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012. The Indonesian consortium loan facilities are secured on the assets of REA Kaltim and are guaranteed by the company. The outstanding balance of \$21.25 million currently drawn under the Indonesian consortium loan facilities is repayable as follows: 2007 - \$4.00 million, 2008 - \$6.75 million and 2009 - \$10.50 million.

## Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. The year again saw an increase in cash and cash equivalents which rose from £5.01 million to £19.01 million.

Net cash flow from operating activities for 2006 amounted to £4.26 million against £7.97 million for 2005. The reduction reflected an almost unchanged operating

cash flow before movements in working capital (£742 million against £738 million), but absorption of £155 million of cash in working capital against a release of £166 million in 2005. The movements in working capital arose principally from an accrual at 31 December 2005 for the settlement of the former litigation with the MEZ group causing a significant increase in payables at that date with the subsequent payment of the amount accrued producing a corresponding reduction in payables at 31 December 2006.

Investing activities for 2006 involved a net outflow of £1796 million which was more than offset by the net inflow from financing activities of £2841 million. Almost the whole of the net outflow from investing activities comprised expenditures on the group's continuing development programme of £1810 million (up from £892 million in 2005). The net inflow from financing activities was the composite of net proceeds from share issues of £1443 million and from new borrowings (principally represented by dollar and sterling notes) of £2038 million, repayments of indebtedness of £234 million and cash outflows of £309 million in connection with the winding up of Makassar Participation plc (as referred to under "Capital structure" above) and of £097 million in respect of preference dividends.

#### Liquidity and financing adequacy

As noted under "Group cash flows" above, the group held cash and cash equivalents at 31 December 2006 of £1901 million, equivalent at an exchange rate of £1 = \$1.96 (the closing rate for 2006) to \$3726 million. In 2007 to-date, the group has received net proceeds of £682 million (equivalent at the same exchange rate to \$1337 million) from the issue of a further £7,000,000 nominal of sterling notes and has made debt repayments totalling \$1750 million. Opening cash and cash equivalents adjusted for these subsequent transactions therefore amounted to \$3313 million.

In addition, the group currently has an undrawn working capital line of \$35 million, subject to annual renewal, and an undrawn balance of \$4 million under the Indonesian consortium loan facilities available for drawing until 7 September 2009 and, to the extent drawn, repayable in 2010.

On the basis of present CPO prices, the directors expect that operating cash flows for the remainder of 2007, together with the group's existing cash resources, will exceed the amount required to fund both the planned development programme for the year and near term debt repayments. However, looking beyond 2007 and allowing for the fact that CPO prices may not be sustained at present levels, the group is likely to require a modest amount of further funding if, as the directors hope will be the case, extension planting is continued at a high level. It was announced on 1 May 2007 that the company had arranged conditionally to place 1,500,000 new ordinary shares at 450p per share and that the net proceeds of this placing would be applied towards meeting the probable requirement.

The group's financing is materially dependent upon the contracts governing the Indonesian consortium loan facilities and the sterling and dollar notes. There are no restrictions under those contracts, or otherwise, on the use of group cash resources or existing borrowings and facilities that the directors would expect materially to impact the planned development of the group. Under the terms of the Indonesian consortium loan facilities, REA Kaltim is restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies but the directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality to the group's funding requirements.

# Review of the group continued

## Financing policies

The directors believe that, in order to maximise returns to holders of the company's ordinary shares, it is essential that a proportion of the group's funding needs are met with prior charge capital. Although the company's preference capital is expensive to service, in that the preference shares entitle the holders of those shares to a cumulative annual dividend at the rate of 9 per cent of the nominal value of the shares (being £1 per share), the directors consider that the preference capital is a valuable component of the group's prior charge capital in that it provides relatively low risk permanent capital. They also believe that the company can now comfortably support preference capital at the level at which the issued preference capital currently stands and that it may be appropriate to increase that preference capital in line with growth in the group's equity base.

As respects borrowings, the directors believe that the group's interests are best served if the group's borrowings are structured to fit the maturity profile of the assets that the borrowings are financing. Recognising that oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors therefore seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements, while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

Considerable progress in realising this policy objective has been made with the recent issues of sterling and dollar notes. The directors hope to make further progress by reconstituting the Indonesian consortium loan facilities as more flexible standby facilities, used primarily for funding working capital requirements, and are currently in discussions with the group's Indonesian bankers to this end.

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication, they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. Net debt represented 57.4 per cent of total equity at 31 December 2006 against a target of 60 per cent and a level of 46.4 per cent at 31 December 2005. The target for 31 December 2007 is 60 per cent.

## Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest going forward is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 3 per cent per annum over Singapore Inter Bank Offered Rate. As a policy, the group does not hedge its exposure to floating rates but, where possible, borrows at fixed rates. A one per cent increase in the floating rate of interest payable on the drawings under the Indonesian consortium loan facilities at 31 December 2006 would result in an annual cost to the group of approximately £210,000.

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated equity. The group's policy is to maintain limited balances in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months, and a balance in Indonesian rupiah sufficient for its immediate Indonesian rupiah

requirements but, otherwise, to keep all cash balances in US dollars

#### Risks and uncertainties

##### Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on political and economic conditions in Indonesia.

As noted under "The Indonesian context" in "Operations" above, in 2006 Indonesia remained stable and the Indonesian economy continued to grow. Moreover, it should be noted that, although the political and economic problems of Indonesia in the years immediately following 1997 had a major impact on the group's operations in terms of their access to funding, such problems had almost no effect on the day to day conduct of the operations.

Whilst freedom to operate in a secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always endeavoured to mitigate those risks and has never, since the inception of the East Kalimantan operations, been adversely affected by security problems.

Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles granted to the group or otherwise seek to restrict the group's freedom to manage its operations.

##### Agricultural factors

Although the group's operations are located in an area of high rainfall with sunlight hours and soil conditions well suited to the cultivation of oil palm, weather and growing conditions vary from year to year and setbacks are possible. As in any agricultural operation, there are also

risks that crops may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

Unusually high levels of rainfall can disrupt estate operations. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit.

Over a long period, crop levels should be reasonably predictable but there can be material variations from the norm in individual years.

##### Produce prices

The profitability and cash flow of the group depend both upon world prices of CPO and CPKO and upon the group's ability to sell its produce at price levels comparable with such world prices.

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity. This may lead to significant price swings although, as noted under "Revenues and markets" in "Operations" above, the directors believe that such swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame.

The Indonesian authorities have in the past (for short periods and in times of very high CPO prices) imposed either restrictions on the export of CPO or significant duties on export sales of such oil. Such measures are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia. The directors hope that the importance of CPO to Indonesia's US dollar earning exports and to the welfare of smallholder farmers will discourage a repetition of such restrictions and imposts. Currently, there are no

# Review of the group continued

restrictions on the export of CPO and duty on export sales is levied at a rate of \$735 per tonne

## Expansion

The group is planning significant extension planting of oil palm. The directors expect that land allocations obtained by the group will become available for planting ahead of the land becoming needed for the planned development programme and that such development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further debt and equity capital. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding, the planned extension planting programme, upon which the group's continued growth is critically dependent, may have to be curtailed.

If the planned extension planting programme did have to be curtailed, the directors consider that it is likely that, for the period of such curtailment, the accounting regime to which the company is subject, requiring an annual revaluation of biological assets at fair value, would result in lower gains or greater losses on biological assets being reflected in the group's reported income than would otherwise be the case. Whilst this would not affect the group's underlying cash flow, it could adversely affect market perceptions as to the value of the company's securities.

## Currency

CPO is essentially a US dollar based commodity. Accordingly, the group's revenues and the underlying value of the group's oil palm operations are effectively US dollar denominated. Moreover all of the group's borrowings other than the sterling notes, and a substantial component of the group's costs (including fertiliser and machinery inputs), are also US dollar denominated or linked and the group has entered into a sterling US dollar debt swap in respect of the sterling

proceeds from the issue of the sterling notes. The group therefore faces two principal currency risks. First, those components of group costs that arise in Indonesian rupiah and sterling can, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. Secondly, the sterling translated amounts of the group's results and net financial position may be adversely affected by sterling strengthening against the US dollar. The directors consider that these risks are inherent in the group's business and capital structure and, accordingly, other than as respects long term borrowings such as those represented by the sterling notes, the group does not normally hedge against such risks.

## Environmental practices

The group's East Kalimantan operations are based on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development on the basis that, regrettable as it may be from an environmental viewpoint, the logging has been so extensive that primary forest is unable to regenerate. Such land areas fall within a region that elsewhere includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna. As such, the group, in common with other oil palm growers in Kalimantan, must expect scrutiny from conservation groups and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

The group is committed to sustainable oil palm development and takes great care to follow best practice on environmental issues. An environmental master plan was constructed at the start of the project using independent environmental experts. Progress against this plan has been carefully monitored and the plan has been updated to reflect modern practice and to take account of changes in circumstance. In updating the plan, the ecological value of the conservation programme followed to date was confirmed by the independent experts involved.

#### Local relations

The operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in its area of operations in East Kalimantan

Whilst the group does have employees in Indonesia from outside East Kalimantan, care has always been taken to give priority to applications for employment from members of the local population. Moreover, local contractors used by the group provide employment opportunities for residents of surrounding villages and such residents also act as suppliers to the group and its employees. The directors believe that, as a result, the group's operations have been a source of increased prosperity to the surrounding villages and that the group has reasonable relations with those villages. The group has made good progress in recent years in assisting the surrounding villages in establishing their own smallholdings of oil palm and it is hoped that this, together with other initiatives to encourage local farmers in the production of foodstuffs, will assist in developing the group's relationships with the local population.

The group's operations are established in a relatively remote and sparsely populated area. The operational areas were acquired with the knowledge and support of the local authorities and development has been kept wholly within the areas to which full registered title has been obtained. These areas are comprised of government owned land which was for the most part unoccupied prior to the group's arrival. However, some small areas of land were previously used by local villagers for the cultivation of crops and, accordingly, when taking over such areas, the group pays compensation to the affected parties. The negotiation of compensation payments can involve a considerable number of local individuals with differing views which in the past has caused, and is likely to continue periodically to cause, delays to the extension planting programme. The group has to-date been successful in managing such periodic

delays so that they have not, in overall terms, materially disrupted the group's extension planting programme. Nevertheless, there is a continuing risk that such delays could do so and the directors are aware of other plantation groups operating in Indonesia who have been forced to postpone planting programmes as a result of difficulties in settling compensation payments.

#### Other relationships

The group is materially dependent upon its employees and endeavours to manage this dependence as detailed under "Employees" in "Operations" above.

Relationships with the group's local co-investors in SYB and KKS are also important to the group. The group endeavours to maintain cordial relations with the persons concerned by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have.

By order of the board

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

Secretary

2 May 2007

# Directors

**Richard Robinow**  
Chairman (61)

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. Chairman of MPEvans Group plc and a director of Sipef NV.

**John Oakley**  
Managing director (58)

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 (61)

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 (73)

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 Chairman of NPK Holdings Limited.

**David Killick**  
Independent non-executive director (69)

Was appointed a director on 21 September 2006. After qualifying as a barrister, he worked for over 28 years for the Commonwealth Development Corporation, serving as a member of its management board from 1980 to 1994. Thereafter, he has held a number of directorships. He is currently a director of Siberia Investment Management Company Limited and Reallyenglish.com Limited and a member of the council of management of Slough Council for Voluntary Service.

**Charles Letts**  
Independent non-executive director (88)

Was appointed a director in 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 The China Club Limited and China Investment Fund.

**Chan Lok Lim**  
Independent non-executive director (65)

Was appointed a director in August 2002. Has been involved for over 30 years in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. Present directorships include Pan Abrasives (Private) Limited, Singapore, and ITE Electric Company Ltd, a public listed company in Singapore.

# Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' reports, for the year ended 31 December 2006

## Principal activities and business review

The principal activity of the group is the cultivation of oil palms in the province of East Kalimantan. A review of the activities and planned future development of the group together with the principal risks and uncertainties facing the group is provided in the accompanying "Review of the group" section of this annual report. Information as to group policy and objectives regarding the use of financial instruments is also provided in that review and the risk exposures arising from such use are covered in the notes to the consolidated financial statements.

The group does not undertake significant research and development activities.

The disclosures relating to the use of financial instruments by the group, including commentary on exposures to price risk, credit risk, liquidity risk and cash flow risk, are included in note 18 to the consolidated financial statements.

Details of significant events since 31 December 2006 are contained in note 38 to the consolidated financial statements.

## Results and dividends

The results are presented in the consolidated income statement and notes thereto.

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2006 were duly paid. An interim dividend in lieu of final in respect of 2006 of 1p per share was paid on the ordinary shares on 9 February 2007.

## Charitable and political donations

During the year the group made no charitable or political donations (2005 - £5,000 charitable donation, no political donations).

## Directors

The directors are listed on page 30. All the directors served throughout the year with the exception of Mr David Killick who was appointed a director on 21 September 2006. Messrs Keatley, Letts, Killick, Robinow and Green-Armytage retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being, as respects Messrs Keatley, Letts and Killick, in compliance with the provisions of the company's articles of association providing for rotation of directors or (in the case of Mr Killick) re-election of a director appointed during the year, and, as respects Messrs Green-Armytage, Keatley, Letts and Robinow, in compliance with the provisions of the Combined Code on Corporate Governance requiring the annual re-election of non-executive directors who have served as such for more than nine years.

The directors believe that, in the present circumstances of the company, continuity and familiarity with the issues immediately facing the company are important and that the variety of backgrounds and skills possessed by the longer serving non-executive directors usefully complement those of the other directors, provide perspective and facilitate balanced and effective decision making. The directors therefore favour (each affected director abstaining from such conclusion as it applies to himself) the re-election of all of the non-executive directors offering themselves for re-election. The senior independent non-executive director and the chairman have confirmed as regards, respectively, the chairman and the other non-executive directors offering themselves for re-election that, following formal performance evaluations, each such individual's performance

# Directors' report continued

continues to be effective and to demonstrate commitment to the role assumed, including commitment of time for board and committee meetings and, where applicable, other assigned duties

## Directors' interests

The interests of directors, together with those of members of their immediate families, at 31 December 2006 and 1 January 2006 in the 9 per cent cumulative preference shares of £1 each, the ordinary shares of 25p each and the 75 per cent US dollar notes 2012/14 of the company, all of which were beneficial interests, were as follows

	Preference shares	Ordinary shares	US dollar notes
31 December 2006			
R M Robinow	73,329	105,000	\$250,000
J M Green-Armytage	2,896	80,704	-
J R M Keatley	2,007	680,878	\$126,703
D H R Killick	-	21,000	-
L E C Letts	4,304	108,008	\$26,718
C L Lim	-	-	-
J C Oakley	453	1,804	\$1,630
1 January 2006			
R M Robinow	113,329	-	-
J M Green-Armytage	2,896	55,861	-
J R M Keatley	2,007	648,456	\$126,703
D H R Killick*	-	21,000	-
L E C Letts	4,304	102,865	\$26,718
C L Lim	-	-	-
J C Oakley	453	63,623	\$1,630

\* At date of appointment being 21 September 2006

At 1 January 2006, Mr Robinow and Mr Green-Armytage, together with members of their respective families, were interested in, respectively, 116,900 and 21,000 of the former 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" section of this annual report

No director or member of a director's immediate family had, at 31 December 2006, an interest in the 95 cent guaranteed sterling notes 2015/17 issued in December 2006 by the company's wholly owned subsidiary company, REA Finance BV

There have been no changes in the interests of the directors detailed above between 31 December 2006 and the date of this report

## 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 applicable legislation, of the following interests in the ordinary share capital of the company

	Number	%
Emba Holdings Limited	9,925,000	31.9
Alcatel Bell Pensioenfonds VZW	4,007,049	12.9
Prudential plc and certain subsidiaries	3,764,870	12.1

In addition, the company has been notified that the above interest of Prudential plc and certain subsidiaries includes 3,349,532 (10.8 per cent) in which M&G Investment Funds 3 is also interested

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

#### Treasury shares

No shares of the company are at present held in treasury

#### Power to issue share capital

At the annual general meeting held on 8 June 2006, shareholders authorised the board under the provisions of section 80 of the Companies Act 1985 to allot relevant securities within specified limits. Replacements of the applicable authorities are being sought at the forthcoming annual general meeting when the existing authorities will expire. The replacement authorities will provide for the allotment of (i) ordinary share capital up to an aggregate nominal amount of £2,481,536 (comprising 9,926,144 ordinary shares) equating to the unissued ordinary share capital at the date of this report and (ii) preference share capital up to an aggregate nominal amount of £3,050,376 (comprising 3,050,376 9 per cent cumulative preference shares) representing the unissued preference share capital at the date of this report.

The new ordinary shares and new preference shares the subject of the new authorities will represent, respectively, 31.9 per cent and 26.6 per cent of the ordinary shares and preference shares in issue at the date of this report. The new authorities will lapse on the date of the annual general meeting to be held in 2008, which will be no later than 15 months from the passing of the resolutions granting the authorities. The directors have no present intention of exercising these authorities.

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 without

being obliged to comply with certain technical requirements of the Companies Act 1985, 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 £388,423 representing 5 per cent of the ordinary share capital in issue at the date of this report. The section 95 authority will terminate on the date of the annual general meeting to be held in 2008, which will be no later than 15 months from the passing of the resolution granting this authority.

#### Auditors

Each director of the company at the date of approval of this report has confirmed that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

By order of the board

*RPH*  
**for R.E.A. SERVICES LIMITED**

Secretary

2 May 2007

# Corporate governance

## General

The company is committed to high standards of corporate governance and seeks to apply, in a manner proportionate to its size, the principles laid down in the Combined Code on Corporate Governance (July 2003 issue) ("the Code") applicable under the Listing Rules of the Financial Services Authority. Save as respects the composition of the audit and remuneration committees and the requirements regarding insurance against the legal action against the directors, as detailed below and in the "Directors' remuneration report" section of this annual report, the company was, throughout the year ended 31 December 2006, in compliance with the provisions set out in section 1 of the Code.

## Board of directors

The board currently comprises one executive director and six non-executive directors details of whom are set out in the "Directors" section of the annual report. The board believes that the variety of backgrounds and skills provided by its members provides perspective and facilitates balanced and effective decision making. The roles of chairman and managing director are separate.

All of the non-executive directors, with the exception of the chairman, are considered by the board to have been independent throughout the year. The chairman and three of the independent directors have served on the board for more than nine years but, in the present circumstances of the company, the board considers that continuity and familiarity with the issues immediately facing the company are important and that the variety of background and skills possessed by the longer serving non-executive directors usefully complement those of the other directors. Following the appointment of Mr D H R Killick as a director of the company during 2006, the board does now have two independent non-executive directors who have served as such for less than nine years. The directors recognise that, as the company

continues to develop, further refreshment of the board may become appropriate. No independent non-executive director is financially or otherwise materially dependent upon the company and the board is therefore satisfied that the independence of the long serving independent non-executive directors is not affected by their length of service.

The board is responsible for the proper management of the company. Full quarterly reports are issued to all directors within six weeks of the end of each quarter 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 strategy, material investments and financing decisions and the appointment and removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet the company's objectives and for reviewing performance, financial controls and risk.

Under the company's articles of association, one third of the directors other than the executive director retire by rotation each year and may submit themselves for re-election. This has the effect that each non-executive director is subject to re-election at least once every three years. In addition, in order to comply with the Code, non-executive directors who have served on the board for more than nine years submit themselves for re-election every year and the executive director submits himself for re-election every three years.

The company did not during 2006 comply with a provision of the Code requiring that the company arrange appropriate insurance against legal action against its directors. As noted in the statement on corporate governance in the 2005 annual report, the company ceased to carry such insurance at the end of 2004 because actual and threatened litigation by Mr M E Zukerman and his associates (the "MEZ group") meant

that the company was unable to renew such insurance on that date on reasonable commercial terms and without acceptance of exclusions to the cover that would have rendered it of little value to the directors. Following settlement of the litigation with the MEZ group in early 2006, and the subsequent settlement of claims for directors' litigation costs with the company's former insurance carrier, the company has been successful in arranging new insurance against legal action against its directors on terms that the directors consider appropriate. This new insurance became effective with effect from 1 January 2007 and the company therefore again became compliant with the applicable provision of the Code with effect from that date.

#### Board committees

The board has appointed audit, nomination and remuneration committees to undertake certain of the board's functions. Such committees have written terms of reference which are available for inspection on the company's website at "www.rea.co.uk". Information concerning the remuneration of directors is provided in the "Directors' remuneration report" section of this annual report together with details of the basis upon which such remuneration is determined.

#### Performance evaluation

A formal evaluation of the performance of the board, the committees and individual directors was undertaken in 2006 and again recently in 2007. Balance of powers, contribution to strategy monitoring and accountability to stakeholders were reviewed by the board as a whole and the performance of the chairman was appraised by independent non-executive directors led by the senior independent director.

#### Professional development

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

the existing directors. Directors are kept advised of legal and regulatory requirements affecting the company and are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

#### Board proceedings

At least two full board meetings are held each year. In 2006 there were three such meetings, one of which was held in Singapore to assist the two independent non-executive directors who are based there. Other board meetings are held as necessary to consider corporate and operational matters with all directors consulted in advance regarding material matters to be discussed. Minutes of board meetings are circulated to all directors. The executive director, unless travelling, is normally present at formal board meetings but telephone discussions take place between the chairman and the other non-executive directors. Committee meetings are held as and when required.

The attendance of individual directors at the scheduled and other board meetings held during 2006 were as follows:

	Full meeting	Other meeting
RM Robinow	3	31
JC Oakley	3	29
JM Green-Armytage	3	2
JRM Keatley	3	5
LEC Letts	2	2
CL Lim	1	-
DHR Killick*	1	-

\* from date of appointment on 21 September 2006

In addition, during 2006, there were two meetings of the audit committee attended by all committee members and one meeting of the remuneration committee and one meeting of the nomination committee in each case attended by John Keatley and Richard Robinow.

# Corporate governance continued

## Nomination committee

The nomination committee comprises Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. It is responsible for recommending appointments to the board. Recommendations from the committee are submitted for full approval by the board. One meeting was held in 2006 to make recommendations on the appointment of an additional non-executive director. It was considered that, given the specialised nature of the group's operations, it was desirable to appoint a person with a good knowledge of the plantation business who could be considered to be independent. Such a person had been identified and it was not considered appropriate to appoint consultants or to advertise the position with regard to the appointment of Mr D H R Killick.

## Audit committee

The audit committee comprises Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. Whilst Mr R M Robinow is not an independent non-executive director, the board considers that his relevant financial experience makes it essential that he be a member of the committee, and that the presence of two independent non-executive directors is sufficient to ensure the committee's independence.

The audit committee is responsible for

- monitoring the integrity of the financial statements and the significant reporting issues and judgements that they contain,
- reviewing the effectiveness of the internal control functions,
- making recommendations to the board in relation to the appointment, reappointment and removal of the external auditors, their remuneration and terms of engagement, and
- reviewing and monitoring the independence of the external auditors and the effectiveness of the audit process.

The audit committee also monitors the fees paid to the auditors in respect of non-audit work. As a matter of policy, the only non-audit work that the auditors routinely undertake is reporting in connection with documents issued by the company. In 2006, the company appointed the corporate finance division of the auditors to act on its behalf in respect of certain corporate transactions. The audit committee considers that it is cost effective to use the auditors for such work and that the nature and scope of, and remuneration payable in respect of, the engagements that result is such that the independence and objectivity of the auditors is not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves and with the external auditors and management, by consideration of reports by management and the external auditors and by holding at least one formal meeting each year.

## Relations with shareholders

The "Chairman's statement" and "Review of the group" sections of the annual 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 annual report.

The company is committed to maintaining a dialogue with all of its shareholders and it endeavours, through its annual report, interim report and such other circular letters to shareholders as circumstances may require, 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 meetings and other contact with its institutional and other major shareholders in order to understand their issues and concerns. The views of shareholders are communicated to the board as a whole.

to ensure that the board develops a balanced understanding of the concerns of major shareholders

All shareholders are welcome to attend the company's annual and other general meetings and to put questions to the board. Because two non-executive directors are based in Singapore and the nature of the group's business requires that the chairman and managing director travel frequently to Indonesia, it is often difficult for all directors to attend the annual general meeting but those directors present at the meeting are available to talk on an informal basis to shareholders after the meeting has been concluded. All proxy votes are counted and full details of all proxies lodged for each resolution are reported to the meeting. At least twenty working days' notice of the annual general meeting is given to shareholders.

The company maintains a corporate website at "www.rea.co.uk". This provides information regarding the company, including pictures of the various aspects of the group's operations, and provides a facility for downloading recent press releases issued by the company and other relevant documentation concerning the company and its issued securities.

#### Internal control

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The board has established a continuous process for identifying, evaluating and managing the significant risks that the group faces. The board regularly reviews the established process which was in place prior to the start of 2006, has remained in place up to the date of approval of this report and is in accordance with the revised guidance on internal control published in October 2005. The system of internal control is designed to manage rather than eliminate risk. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The board regularly reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management and, on the basis of those reports, considering whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring.

The board performed a specific review of the system of internal control on 15 September 2006 (including the group's internal audit arrangements) and reconfirmed the conclusions of the review for the purposes of this annual report. The review, as reconfirmed, considered all aspects of internal control arising during the period covered by the report. During the course of the review, the board did not identify or become aware of any failings or weaknesses in internal control which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered necessary.

#### Internal audit and reporting

The group's Indonesian operations have an internal audit function which was restored to full strength during 2006 (having previously been temporarily reduced by the departure of a senior member of the internal audit staff). The function reports regularly and summaries of its reports are issued to the board and 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 the external operations.

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 policies, to a number of senior managers, reporting through the local senior executive to the managing director.

# Corporate governance continued

Local management reports to the board on a regular basis by way of the circulation of progress reports, management reports and management accounts. Local management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. At least two supervisory visits each year are undertaken to the overseas operations by the executive director and other directors make periodic visits to those operations. 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 there is 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 Schedule 7A to the Companies Act 1985 (the "Act") The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration set out in Schedule B to the Combined Code on Corporate Governance (July 2003 issue) (the "Code") As required by the Act, a resolution to approve the report will be proposed at the annual general meeting at which the financial statements will be approved

The Act requires the auditors to report to the company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act The report has therefore been divided into separate sections for audited and unaudited information

## Unaudited information

### The remuneration committee

Throughout the year ended 31 December 2006 the remuneration committee comprised Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow This did not comply fully with a provision of the Code requiring that all members of the committee be independent non-executive directors Mr Keatley and Mr Letts are independent non-executive directors but Mr Robinow, by virtue of his involvement in the day-to-day management of the group and his position as chairman, may not be regarded as independent 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

The membership of the remuneration committee was the same in 2005 when the directors' remuneration for 2006 was considered as it has been in the year ended 31 December 2006

### Remuneration policy

In framing its policy on performance related remuneration the committee follows the provisions of schedule B to the 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 current remuneration policy (which applies for 2007 and subsequent years) is to attract, motivate, retain 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 a company car In addition executive directors may be paid non-pensionable performance related bonuses These are awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant

# Directors' remuneration report continued

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 and the only current executive director is a member of the REA Pension Scheme.

## Service contracts

The company's current policy on service contracts is that contracts should have a notice period of not more than one year and a maximum termination payment not exceeding one year's salary. No director has a service contract that is not fully compliant with this policy.

The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years and thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2006 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 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 2002 to December 2006. 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 2006 (with comparative totals for 2005).

	Salary	Other*	2006	2005
	and fees		Total	Total
	£'000	£'000	£'000	£'000
R M Robinow	3	13	16	12
J C Oakley	191	83	274	266
J M Green-Armytage	-	-	-	-
J R M Keatley	13	-	13	13
D H R Killick **	6	-	6	-
L E C Letts	3	-	3	3
C L Lim	-	-	-	-
	216	96	312	294

\* comprises benefits and, in the case of Mr Oakley, a bonus of £60,000 appointed 21 September 2006.

Mr Robinow, Mr Green-Armytage, Mr Letts and Mr Lim were interested in service arrangements with three companies whereby aggregate amounts were payable for 2006 of £258,000 (2005 £246,000) in respect of Mr Robinow, £13,000 (2005 £13,000) in respect of Mr Green-Armytage, £13,000 (2005 £13,000) in respect of Mr Letts and £13,000 (2005 £13,000) in respect of Mr Lim.

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

Mr Oakley (who was aged 58 at 31 December 2006) is an ordinary member of the REA Pension Scheme which is a defined benefit scheme of which details are shown in note 34 to the consolidated financial statements.

Pensionable earnings are calculated on basic salary only  
 Details of the accrued pension are set out below

	£
Accrued annual pension at beginning of year	70,267
Increase in accrued annual pension during year	5,427
Accrued annual pension at end of year	<u>75,694</u>

Pension transfer value at beginning of year	1,176,926
Contributions made by the director	9,400
Increase in pension transfer value during year*	111,291
Pension transfer value at end of year	<u>1,297,617</u>

net of director's contributions

The increase during the year in excess of inflation in accrued annual pension was £2,898 and in pension transfer value was £68,922

#### Share options - Mr J C Oakley

Pursuant to an option agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each at a price of 45p per share payable in cash. 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. The number of shares in respect of the option and the option subscription price have since been amended to take account of share issues since the option was granted. No further options have been granted since 2002. The option expires on 21 May 2012.

Details of the number of ordinary shares the subject of the option are as follows

Beginning of year	1,003,824
Amendment for open offer in April 2006	9,289
Exercised on 22 June 2006	<u>(185,000)</u>
End of year	<u>828,113</u>

The exercise price at 1 January 2006 was 44.8289p but was amended for the open offer in April 2006 to 44.4175p. The option remains exercisable in respect of 828,113 ordinary shares at that price from 31 December 2006. The market price on 22 June 2006 was 285p and the gain on exercise in respect of 185,000 ordinary shares on that date was £445,078.

The market price of the ordinary shares at 31 December 2006 was 433.5p, and the range during the year was 262.57p to 435p.

Approved by the board on 2 May 2007

**RICHARD M ROBINOW**

Chairman



# Directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards ("IFRS"), the Companies Act 1985 and Article 4 of European Commission Regulation 1606/2002

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to

- properly select and apply suitable accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (including United Kingdom Accounting Standards and applicable law). The parent company financial statements

are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Auditors' report (group)

Independent auditors' report to the members of REA Holdings plc

We have audited the group financial statements of REA Holdings plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of movements in equity, the consolidated cash flow statement, the accounting policies and the related notes 1 to 38. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of REA Holdings plc for the year ended 31 December 2006.

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

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented in the review of the group that is cross referred from the Principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the directors' report, the chairman's

# Auditors' report (group) continued

statement, the unaudited part of the directors' remuneration report, the review of the group and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, 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 sufficient evidence to give reasonable assurance that the group financial statements and the part of the directors' remuneration report to be 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 group financial statements and the part of the directors' remuneration report to be audited.

## Opinion

### In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the group financial statements.

*DeBibbe & Touche LLP*

## **DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors  
London, England  
2 May 2007

# Consolidated income statement

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Revenue</b>	1	17,833	14,944
Cost of sales		(8,060)	(6,641)
<b>Gross profit</b>		9,773	8,303
Net gain arising from changes in fair value of biological assets	11	4,677	4,133
Other operating income		5	6
Distribution costs		(283)	(190)
Administrative expenses		(3,004)	(1,572)
<b>Operating profit</b>		11,168	10,680
Investment revenues	5	344	98
Finance costs	6	(887)	(1,156)
<b>Profit before tax</b>	3	10,625	9,622
Tax	7	(3,171)	(3,323)
<b>Profit for the year</b>		7,454	6,299
Attributable to			
Ordinary shareholders		6,208	4,520
Preference shareholders	8	965	765
Minority interests		281	1,014
		7,454	6,299
<b>Earnings per 25p ordinary share</b>	9		
Basic		21 5p	20 0p
Diluted		20 3p	16 7p

All operations in both years are continuing

# Consolidated balance sheet

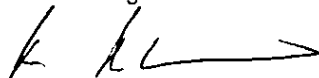
as at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Non-current assets</b>			
Goodwill	10	6,417	-
Biological assets	11	73,212	68,192
Property, plant and equipment	12	14,615	10,565
Prepaid operating lease rentals	13	2,643	661
Deferred tax assets	22	5,445	5,619
Non-current receivables		1,141	1,193
<b>Total non-current assets</b>		<b>103,473</b>	<b>86,230</b>
<b>Current assets</b>			
Inventories	15	2,600	2,017
Trade and other receivables	16	2,022	2,854
Cash and cash equivalents	17	19,014	5,007
<b>Total current assets</b>		<b>23,636</b>	<b>9,878</b>
<b>Total assets</b>		<b>127,109</b>	<b>96,108</b>
<b>Current liabilities</b>			
Trade and other payables	25	(4,305)	(7,122)
Current tax liabilities		(112)	(141)
Obligations under finance leases	23	(154)	(354)
Bank loans	19	(10,969)	(2,180)
Other loans and payables	24	(202)	(149)
<b>Total current liabilities</b>		<b>(15,742)</b>	<b>(9,946)</b>
<b>Non-current liabilities</b>			
Bank loans	19	(9,821)	(19,913)
Sterling notes	20	(13,984)	-
US dollar notes	21	(14,953)	(2,852)
Deferred tax liabilities	22	(16,961)	(17,372)
Obligations under finance leases	23	(17)	(190)
Other loans and payables	24	(1,793)	(1,702)
<b>Total non-current liabilities</b>		<b>(57,529)</b>	<b>(42,029)</b>
<b>Total liabilities</b>		<b>(73,271)</b>	<b>(51,975)</b>
<b>Net assets</b>		<b>53,838</b>	<b>44,133</b>
<b>Equity</b>			
Share capital	26	19,218	14,788
Share premium account	27	10,995	2,627
Capital redemption reserve	27	-	3,240
Warrants	28	-	1,162
Translation reserve	29	(11,523)	(5,858)
Special reserve (non-distributable)	27	1,892	-
Retained earnings	30	32,950	21,668
		<b>53,532</b>	<b>37,627</b>
Minority interests	31	306	6,506
<b>Total equity</b>		<b>53,838</b>	<b>44,133</b>

Approved by the board on 2 May 2007 and signed on behalf of the board

**RICHARD M ROBINOW**

Chairman



# Consolidated statement of recognised income and expense

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Exchange translation differences	(6,166)	3,522
Tax on items taken directly to equity	224	352
<b>Net (loss) / gain recognised directly in equity</b>	<b>(5,942)</b>	<b>3,874</b>
Profit for the year	7,454	6,299
Share based payment - deferred tax credit	967	-
<b>Total recognised income and expense for the year</b>	<b>2,479</b>	<b>10,173</b>
Attributable to		
Ordinary shareholders	1,508	7,791
Preference shareholders	965	765
Minority interests	6	1,617
	2,479	10,173

## Reconciliation of movements in equity

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Total recognised income and expense for the year	2,479	10,173
Issue of new ordinary shares by way of placings and open offer (net of costs)	10,367	-
Issue of new preference shares by way of placings (net of costs)	3,071	-
Issue of new ordinary shares on exercise of share options	82	-
Issue of new ordinary shares on exercise of warrants	876	2
Issue of new ordinary shares arising on conversion of convertible loan stock	-	7
Issue of new ordinary shares arising on restructuring of balance of convertible loan stock and write off of debt and equity issuance costs	-	(384)
Subscription of new shares by minority interest in subsidiaries	110	-
Dividends to minority shareholders of a subsidiary	-	(236)
Dividends to preference shareholders	(965)	(765)
Liquidation distribution to preference shareholders in a subsidiary	(2,304)	-
Acquisition of minority interest in a subsidiary	(4,011)	-
	9,705	8,797
Equity at beginning of year	44,133	35,336
Equity at end of year	53,838	44,133

# Consolidated cash flow statement

for the year ended 31 December 2006

	2006 £'000	2005 £'000
<b>Net cash from operating activities (note 32)</b>	4,265	7,974
<b>Investing activities</b>		
Interest received	344	98
Proceeds on disposal of property, plant and equipment	-	15
Purchases of property, plant and equipment	(6,471)	(2,931)
Expenditure on biological assets	(10,094)	(5,660)
Expenditure on prepaid operating lease rentals	(1,539)	(332)
Costs incurred in acquisition of minority interest in subsidiary	(199)	-
Disposal of investments	-	1,058
<b>Net cash used in investing activities</b>	<b>(17,959)</b>	<b>(7,752)</b>
<b>Financing activities</b>		
Preference dividends paid	(965)	(765)
Repayment of borrowings	(2,015)	(17,463)
Repayment of obligations under finance leases	(329)	(158)
Proceeds of issue of new share capital in subsidiaries to minority shareholders	110	-
Proceeds of issue of preference share capital less expenses	3,071	-
Proceeds of issue of ordinary share capital less expenses	10,376	(138)
Proceeds of issue of new ordinary shares on exercise of warrants	876	-
Liquidation distribution to preference shareholders in a subsidiary	(3,094)	-
Issue of US dollar notes, net of expenses	2,901	(49)
Issue of sterling notes, net of expenses	13,981	-
New bank borrowings drawn	3,494	22,093
<b>Net cash from financing activities</b>	<b>28,406</b>	<b>3,520</b>
<b>Cash and cash equivalents</b>		
Net increase in cash and cash equivalents	14,712	3,742
Cash and cash equivalents at beginning of year	5,007	1,061
Effect of exchange rate changes	(705)	204
<b>Cash and cash equivalents at end of year</b>	<b>19,014</b>	<b>5,007</b>

# Accounting policies (group)

## Basis of accounting

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use by the European Union as at the date of completion of the financial statements. The statements are prepared under the historical cost convention as modified by the revaluation of biological assets.

## Basis of consolidation

The consolidated financial statements consolidate those of the company and its subsidiary companies made up to 31 December of each year.

Unless otherwise stated, the acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Any subsequent losses attributable to the minority shareholders in excess of the minority interest are allocated against the interest of the parent. Results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

On acquisition, any excess of the fair value of the consideration given over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency in consideration given against the fair value of the identifiable net assets acquired is credited to profit or loss in the consolidated income statement in the period of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

## Goodwill

Goodwill is recognised as an asset on the basis described in the above policy "Basis of consolidation" and once recognised is tested for impairment at least annually. Any impairment is debited immediately as a loss in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary the attributable amount of any goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising between 1 January 1998 and the date of transition to IFRS is retained at the previous UK Generally Accepted Accounting Practice amount subject to testing for impairment at that date. Goodwill written off to reserves prior to 1 January 1998, in accordance with the accounting standards then in force, has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in respect of goods and services provided in the normal course of business net of VAT and other sales related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and include contracted sales in respect of which the contracted goods are available for collection by the buyer in the accounting period. Income from services is accrued on a time basis by reference to the rate of fee agreed with the buyer.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable (which is the rate that exactly discounts estimated future cash receipts, through the expected life of

# Accounting policies (group) continued

the financial asset, to that asset's net carrying amount) Dividend income is recognised when the shareholders' rights to receive payment have been established

## Leasing

Assets held under finance leases and other similar contracts are recognised as assets of the group at their fair values or, if lower, at the present values of minimum lease payments and are depreciated over the shorter of the lease terms and their useful lives. The corresponding liabilities are included in the balance sheet as finance lease obligations. Lease payments are apportioned between finance charges and a reduction in the lease obligation to produce a constant rate of interest on the balance of the capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Finance and hire purchase charges are charged directly against income.

Rental payments under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

## Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Non-monetary assets and liabilities carried at fair values that are denominated in foreign currencies are translated at the rates prevailing at the dates when the fair values were determined. Gains or losses arising on retranslation are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities, including foreign currency loans, which, to the extent that they relate to investment in overseas operations or hedge the group's investment in such operations, are recognised directly in equity.

For consolidation purposes, the assets and liabilities of any group entity with a functional currency other than sterling are translated at the exchange rate at the balance sheet date. Income and expenses are translated at the average

rate for the period unless exchange rates fluctuate significantly. Exchange differences arising are classified as equity and transferred to the group's translation reserve. Such exchange differences are recognised as income or expenses in the period in which the entity is sold.

Goodwill and fair value adjustments arising on the acquisition of an entity with a functional currency other than sterling are treated as assets and liabilities of that entity and are translated at the closing rate of exchange.

## Borrowing costs

Borrowing costs incurred in financing construction or installation of qualifying property, plant or equipment are added to the cost of the qualifying asset, until such time as the construction or installation is substantially complete and the asset is ready for its intended use. Borrowing costs incurred in financing the planting of extensions to the developed agricultural area are treated as expenditure relating to biological assets until such extensions reach maturity. All other borrowing costs are recognised in the consolidated income statement of the period in which they are incurred.

## Operating profit

Operating profit is stated after any gain or loss arising from changes in the fair value of biological assets (net of expenditure relating to those assets up to the point of maturity) but before investment income and finance costs.

## Retirement benefit costs

For defined benefit retirement schemes, the estimated regular cost of providing for the benefits accruing adjusted to reflect variations from that cost is charged as an expense as it is incurred. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost reflect actuarial losses or gains and are payable over a recovery period agreed with the scheme trustees.

Provision is made for the present value of future amounts payable to cover the group share of actuarial losses. The provision is reassessed at each accounting date, with the

difference on reassessment being charged or credited to the consolidated income statement in addition to the adjusted regular cost for the period

#### Taxation

The tax expense represents the sum of tax currently payable and deferred tax. Tax currently payable represents amounts expected to be paid (or recovered) based on the taxable profit for the period using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is provided on the balance sheet liability method on a non-discounted basis on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding fiscal balances used in the computation of taxable profits (temporary differences). Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets or liabilities in a transaction which affects neither the profit for tax purposes nor the accounting profits.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the periods when deferred tax liabilities are settled or deferred tax assets are realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Biological assets

Biological assets comprise oil palm trees and nurseries, in the former case from initial preparation of land and planting of seedlings through to maturity and the entire productive life of the trees and in the latter case from planting of seed

through to field transplanting of seedlings. Biological assets do not include the land upon which the trees and nurseries are planted, or the buildings, equipment and other facilities used in the upkeep of the planted areas and harvesting of crops.

The biological process commences with the initial preparation of land and planting of seedlings and ceases with the delivery of crop in the form of fresh fruit bunches ("FFB") to the manufacturing process in which crude palm oil and palm kernel are extracted from the FFB.

Biological assets are revalued at each accounting date on a discounted cash flow basis by reference to the FFB expected to be harvested over the full remaining productive life of the trees, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term average of historic crude palm oil prices buffered so that the implied movement in unit profit margin in any year does not exceed 5 per cent, and further, so as to restrict any implied change in unit profit margin in contradiction of the trend in current margins. Assets which are not yet mature at the accounting date, and hence are not producing FFB, are valued on a similar basis but with the estimated cost to complete planting and maintain the assets to maturity being deducted from the discounted FFB value.

All expenditure on the biological assets up to maturity, including interest, is treated as an addition to the biological assets. Expenditure to maturity includes an allocation of overheads to the point that trees are brought into productive cropping. Such overheads include the cost of the Indonesian head office, the cost of providing agricultural buildings, equipment and vehicles, personnel costs, local fees and general expenses.

The variation in the value of the biological assets in each accounting period, after allowing for additions to the biological assets in the period, is charged or credited to profit or loss as appropriate, with no depreciation being provided on such assets.

# Accounting policies (group) continued

## Property, plant and equipment

All property, plant and equipment is carried at original cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings - 20 years, plant and machinery - 5 to 16 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the terms of the relevant leases.

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

## Prepaid operating lease rentals

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the periods of the leases.

## Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that any asset has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset (or cash-generating unit) is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax

discount rate that reflects current market assessments of the time value of money and those risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## Inventories

Inventories of agricultural produce harvested from the biological assets are stated at the fair value, less estimated sale costs at the point of harvest, of the FFB from which the produce derives plus costs incurred in the processing of such FFB (including direct labour costs and overheads that have been incurred in bringing such inventories to their present location and condition) or at net realisable value if lower. Inventories of engineering and other items are valued at the lower of cost, on the weighted average method, or net realisable value. For these purposes, net realisable value represents the estimated selling price less all estimated costs of processing and costs incurred in marketing, selling and distribution.

## Financial instruments

Financial assets and liabilities are recognised in the group's balance sheet when the group becomes a party to the

contractual provisions of the relative constituent instruments

#### Trade receivables

Trade receivables do not carry any interest and are stated at nominal value as reduced by appropriate allowances for irrecoverable amounts

#### Note issues and bank borrowings

Note issues and bank borrowings and overdrafts are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to notes, the coupon payable together with the amortisation of note issuance costs (which include any premiums payable on settlement or redemption) and, with respect to bank borrowings and overdrafts, the contractual rate of interest together with the amortisation of costs associated with the negotiation of, and compliance with, the contractual terms and conditions. Note issues are recorded in the accounts at their redemption value, less the unamortised balance of issuance costs. Bank borrowings and overdrafts are recorded as the proceeds received, the unamortised balance of costs is included in non-current receivables

#### Trade payables

Trade payables are not interest bearing and are stated at their nominal value

#### Equity instruments

Equity instruments are classified according to the substance of the relative contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. The preference shares of the company are regarded as equity instruments

#### 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

#### Policy evolution

The consolidated financial statements do not reflect the following standards and interpretations which were in issue at the date of approval of the statements but were not yet effective

- IAS 1 "Presentation of Financial Statements, paragraphs 124A-124C",
- IFRS 7 "Financial instruments disclosure",
- IFRS 8 "Operating segments",
- IFRIC 7 "Applying the restatement approach under IAS 29 'Financial reporting in hyperinflationary economies'",
- IFRIC 8 "Scope of IFRS 2",
- IFRIC 9 "Reassessment of embedded derivatives",
- IFRIC 10 "Interim financial reporting and impairment",
- IFRIC 11 "IFRS2 group and treasury share transactions",
- IFRIC 12 "Service concession arrangements",

The directors anticipate that when the relevant standards and interpretations come into effect for periods commencing on or after 1 January 2007 their adoption will have no material impact on the consolidated financial statements save that additional disclosures may be required in relation to capital and financial instruments

# Notes to the consolidated financial statements

1 Revenue	2006 £'000	2005 £'000
Sales of goods	17,724	14,770
Revenue from services	109	174
	<hr/>	<hr/>
	17,833	14,944
Other operating income	5	6
Investment income	344	98
	<hr/>	<hr/>
Total revenue	18,182	15,048

## 2 Segment information

In the table below, the group's sales are analysed by geographical origin and the carrying amount of segment net assets and additions to property, plant and equipment by geographical area of location. No analyses are provided by business segment as the group has only one business segment.

	2006 £'m	2005 £'m
Sales by geographical market		
United Kingdom	0.1	0.2
Europe	-	0.6
Indonesia	13.6	8.8
Rest of Asia	4.1	5.3
	<hr/>	<hr/>
	17.8	14.9

Carrying amount of segment net assets by geographical area of asset location		
United Kingdom and Europe	13.5	0.9
Indonesia	40.3	43.2
	<hr/>	<hr/>
	53.8	44.1

Additions to property, plant and equipment by geographical area of asset location		
United Kingdom	-	0.1
Indonesia	6.5	2.8
	<hr/>	<hr/>
	6.5	2.9

3 Profit before tax	2006 £'000	2005 £'000
Profit before tax has been arrived at after charging / (crediting)		
Net foreign exchange losses / (gains)	503	(505)
Depreciation of property, plant and equipment	843	806
Amortisation of prepaid operating lease rentals	50	19
Auditors' remuneration for audit services	91	78

Amounts payable to Deloitte & Touche LLP for the audit of accounts of associates of the company pursuant to legislation were £4,000 (2005 £41,000)

Amounts payable to Deloitte & Touche LLP for other services pursuant to legislation were £351,000 (2005 £18,000). These have been added to the capitalised costs of the relevant transactions and relate wholly to corporate finance work.

3 Profit before tax - continued	2006	2005
	£'000	£'000
Earnings before interest, tax, depreciation and amortisation and net biological gain		
Operating profit	11,168	10,680
Depreciation and amortisation	893	825
Net biological gain	(4,677)	(4,133)
	<u>7,384</u>	<u>7,372</u>

4 Staff costs, including directors	2006	2005
	Number	Number
Average number of employees (including executive directors)		
Agricultural - permanent	2,849	2,383
Agricultural - temporary	1,042	632
Head office	6	6
	<u>3,897</u>	<u>3,021</u>

	2006	2005
	£'000	£'000
Their aggregate remuneration comprised		
Wages and salaries	4,035	3,357
Social security costs	649	113
Pension costs	205	197
	<u>4,889</u>	<u>3,667</u>

5 Investment revenues	2006	2005
	£'000	£'000
Interest on bank deposits	344	98
	<u>344</u>	<u>98</u>

6 Finance costs	2006	2005
	£'000	£'000
Interest on bank loans and overdrafts	2,043	1,302
Interest on convertible loan stock	-	95
Interest on US dollar notes	1,081	94
Interest on sterling notes	105	-
Interest on other loans	33	168
Interest on obligations under finance leases	34	64
	<u>3,296</u>	<u>1,723</u>
Amount included as additions to biological assets	(1,960)	(967)
Amount capitalised on acquisition	(57)	-
	<u>1,279</u>	<u>756</u>
Other finance charges	203	277
Exchange loss on repayment of long term intra-group foreign currency loans	-	123
Exchange gain on repayment of preference shares held by minority interests in a subsidiary	(595)	-
	<u>887</u>	<u>1,156</u>

# Notes to the consolidated financial statements continued

## 6 Finance costs - continued

Amount included as additions to biological assets arose on the general pool of borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 44.7 per cent (2005 - 40.6 per cent)

7 Tax	2006 £'000	2005 £'000
Current tax		
UK corporation tax	-	-
Foreign tax	119	79
<b>Total current tax</b>	<b>119</b>	<b>79</b>
Deferred tax		
Current year	3,052	3,244
Attributable to an increase in the rate of tax	-	-
<b>Total deferred tax</b>	<b>3,052</b>	<b>3,244</b>
<b>Total tax</b>	<b>3,171</b>	<b>3,323</b>

Taxation is provided at the rates prevailing for the relevant jurisdiction, which for the United Kingdom and Indonesia is 30 per cent. The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 %	2005 %	2006 £'000	2005 £'000
Profit before tax			10,625	9,622
Tax at the standard rate	30	30	3,188	2,886
Tax effect of the following items				
Expenses not deductible in determining taxable profit	1	2	145	177
Deferred tax asset not recognised	-	1	(47)	90
Utilisation of tax losses not previously recognised	-	(1)	-	(65)
Non taxable income	(3)	(1)	(370)	(34)
Overseas withholding taxes	2	4	255	269
<b>Tax expense at effective tax rate for the year</b>	<b>30</b>	<b>35</b>	<b>3,171</b>	<b>3,323</b>

8 Dividends	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders		
Preference dividends of 9p per share	965	765
Ordinary dividends	-	-
	<b>965</b>	<b>765</b>

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2006 was paid on 9 February 2007 in accordance with IAS10 "Events after the balance sheet date" this dividend has not been included in these financial statements

9 Earnings per share	2006	2005
	£'000	£'000
Earnings for the purpose of basic earnings per share*	6,208	4,520
Interest on convertible loan stock (net of tax)	-	66
<b>Earnings for the purpose of diluted earnings per share</b>	<b>6,208</b>	<b>4,586</b>
* being net profit attributable to ordinary shareholders		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	28,857	22,631
Effect of dilutive potential ordinary shares	1,666	4,784
<b>Weighted average number of ordinary shares for the purpose of diluted earnings per share</b>	<b>30,523</b>	<b>27,415</b>

#### 10 Goodwill on acquisition of minority interest in subsidiary

	£'000
Consideration	
US dollar notes issued	10,728
Costs of acquisition	199
<b>Total costs of acquisition</b>	<b>10,927</b>
Net book value of shares formerly held by minorities	(4,011)
<b>Goodwill recognised on acquisition</b>	<b>6,916</b>
Goodwill on previous acquisitions not separately identified	192
Exchange differences	(691)
<b>Goodwill at end of period</b>	<b>6,417</b>

On 23 January 2006 REA Holdings plc acquired a 12.3 per cent minority interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of REA Kaltim, for a consideration comprising the issue of \$19 million (£10.7 million) of 7.5 per cent dollar notes 2012/14. The goodwill of £6.4 million at the end of the period is considered by the directors to be fully supported by their view of the long-term prospects for REA Kaltim.

11 Biological assets	2006	2005
	£'000	£'000
Beginning of year	68,192	51,765
Reclassification of expenditure in prior years between land, plantations and other non-current assets	(758)	-
Additions to planted area and costs to maturity	10,113	5,660
Net biological gain	4,677	4,133
Exchange differences	(9,012)	6,592
Transfers	-	42
<b>End of year</b>	<b>73,212</b>	<b>68,192</b>
Net biological gain comprises		
Gain arising from movement in fair value attributable to physical changes	3,828	4,309
Gain/(loss) arising from movement in fair value attributable to price changes	252	(176)
Gain in relation to prior year reclassification	597	-
	<b>4,677</b>	<b>4,133</b>

# Notes to the consolidated financial statements continued

## 11 Biological assets - continued

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". The key assumptions used in the valuation are a discount rate of 17.5% (2005 - 19%) and a twenty year average CPO price of \$402 per tonne, FOB Samannda (2005 - ten year average of \$413 per tonne)

At the balance sheet date, biological assets of £65,706,000 (2005 - £65,230,000) had been charged as security for bank loans (see note 19) but there were otherwise no restrictions on titles to the biological assets (2005 - none). Outstanding commitments for the development of immature areas amounted to £9,467,000 (2005 - £8,570,000)

The crop of oil palm fresh fruit bunches for 2006 amounted to 334,076 tonnes (2005 - 313,355 tonnes). As a general rule, all palm products produced by the group are sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months.

## 12 Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
Beginning of year	2,186	9,354	2,434	13,974
Reclassifications	25	4	(32)	(3)
Additions	53	464	5,954	6,471
Exchange differences	(323)	(1,147)	(542)	(2,012)
Disposals	-	(16)	-	(16)
Transfers	971	129	(1,100)	-
<b>End of year</b>	<b>2,912</b>	<b>8,788</b>	<b>6,714</b>	<b>18,414</b>
<b>Accumulated depreciation</b>				
Beginning of year	398	3,011	-	3,409
Charge for year	102	741	-	843
Exchange differences	(54)	(384)	-	(438)
Eliminated on disposals	-	(15)	-	(15)
<b>End of year</b>	<b>446</b>	<b>3,353</b>	<b>-</b>	<b>3,799</b>
<b>Carrying amount</b>				
<b>End of year</b>	<b>2,466</b>	<b>5,435</b>	<b>6,714</b>	<b>14,615</b>
<b>Beginning of year</b>	<b>1,788</b>	<b>6,343</b>	<b>2,434</b>	<b>10,565</b>

At the balance sheet date, the book value of finance leases, included in property, plant and equipment was £571,000 (2005 - £1,028,000)

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £118,000 (2005 - £3,700,000)

13 Prepaid operating lease rentals	2006	2005
	£'000	£'000
Cost		
Beginning of year	726	335
Reclassification of expenditure in prior years between land, plantations and other non-current assets	750	-
Additions	1,539	332
Exchange differences	(259)	59
End of year	2,756	726
Accumulated depreciation		
Beginning of year	65	41
Relating to the reclassification of expenditure in prior years	10	-
Charge for year	50	19
Exchange differences	(12)	5
End of year	113	65
Carrying amount		
End of year	2,643	661
Beginning of year	661	294

Land title certificates have been obtained in respect of areas covering 35,216 hectares. The land registry survey of a further area of 10,200 hectares has been completed and a land title certificate for this area is awaited.

#### 14 Subsidiaries

A list of the principal subsidiaries, including the name, country of incorporation and proportion of ownership is given in note (i) to the company's individual financial statements.

Borrowings incurred by PT REA Kaltim Plantations ("REA Kaltim") restrict the payment of interest on loans by group companies to REA Kaltim to 2.75 per cent over Singapore Inter Bank Offered Rate and limit the payment of dividends to a proportion of REA Kaltim's annual profit after tax.

15 Inventories	2006	2005
	£'000	£'000
Agricultural products	477	807
Engineering and other operating inventory	2,123	1,210
	2,600	2,017

# Notes to the consolidated financial statements continued

16 Trade and other receivables	2006	2005
	£'000	£'000
Due from sale of goods	1,040	1,899
Prepayments and advance payments	243	474
Deposits and other receivables	739	481
	<u>2,022</u>	<u>2,854</u>

Sales of goods are normally made on a cash against documents basis with an average credit period of 25 days (2005 - 24 days) The directors consider that the carrying amount of trade and other receivables approximates their fair value

## 17 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with a maturity of one month or less

## 18 Financial instruments and risk management

### Financial instruments

The group's financial instruments comprise preference shares, borrowings, cash and liquid resources, and in addition, certain debtors and creditors which arise from its operations The main purpose of these financial instruments is to raise finance for, and facilitate the conduct and expansion of, the group's agricultural operations The table below provides an analysis of the book values and fair values of financial assets and liabilities, excluding debtors and creditors, as at the balance sheet date

	2006	2006	2005	2005
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Cash and deposits	19,014	19,014	5,007	5,007
Debt - within one year	(10,969)	(10,969)	(2,180)	(2,180)
Debt - after more than one year	(9,821)	(9,821)	(19,913)	(19,913)
Finance leases	(171)	(171)	(544)	(544)
US dollar notes	(14,953)	(13,776)	(2,852)	(2,891)
Sterling notes	(13,984)	(15,000)	-	-
Net debt - book value/fair value	(30,884)	(30,723)	(20,482)	(20,521)
Preference shares	(11,450)	(12,824)	(8,503)	(8,503)
	<u>(42,334)</u>	<u>(43,547)</u>	<u>(28,985)</u>	<u>(29,024)</u>

The fair values of the US dollar notes, sterling notes and the preference shares reflect the last prices at which transactions in those instruments were effected prior to the year end

The main risks arising from the group's financial instruments are credit risk, liquidity risk, interest rate 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

### Credit risk

The directors consider that the group is not exposed to any major concentrations of credit risk Deposits are made by the group only with banks with high credit ratings Sales of goods are made against documents The maximum credit risk exposure of the group's financial assets at 31 December 2006 is represented by the amounts reported under the corresponding balance sheet heading

## 18 Financial instruments and risk management - continued

### Liquidity risk

The maturity analysis for each category of financial liability is disclosed in its related note. The company's preference shares are not redeemable.

The directors' policy in regard to the capital structure of the group is to maximise returns to holders of the company's ordinary shares by meeting a proportion of the group's funding needs with prior charge capital and borrowings, either from banks or the public debt market, having a maturity profile which is suited to the assets that such capital is financing. In this context, they consider that the preference share capital, whilst expensive to service, is a valuable component of the group's prior charge capital in that it provides relatively low risk permanent capital.

Recognising that oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors therefore seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

Considerable progress in realising this policy objective has been made with issues in 2006 of sterling and US dollar notes, and the later issue of sterling notes in January 2007 referred to in note 38.

### Market risk – interest rates and foreign currency

The directors' policy as regards interest rates is to borrow whenever possible at fixed interest rates, but where borrowings are raised at floating rates the directors would not normally seek to hedge such exposure. The sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. In addition, the company's preference shares are entitled to a fixed annual dividend of 9 pence per share.

Interest going forward is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 3 per cent per annum over Singapore Inter Bank Offered Rate. A one per cent increase in the floating rate of interest payable on these drawings as at 31 December 2006 would result in an annual cost to the group of approximately £210,000.

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in these operations that is met by borrowings, it has no currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the investment that is financed with sterling denominated equity. The group's policy is to maintain limited balances in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months and a balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements but, otherwise, to keep all cash balances in US dollars.

At 31 December 2006 there were no contracts outstanding for the forward purchase and sale of foreign currencies. Subsequent to the year end, the group has entered into a cross currency interest rate swap as detailed in note 38.

# Notes to the consolidated financial statements continued

19 Bank loans	2006 £'000	2005 £'000
Bank loans	20,790	22,093
The borrowings are repayable as follows		
On demand or within one year	10,969	2,180
In the second year	2,934	3,343
In the third to fifth years inclusive	6,887	16,570
After five years	-	-
	20,790	22,093
Amount due for settlement within 12 months (shown under current liabilities)	10,969	2,180
Amount due for settlement after 12 months	9,821	19,913
	20,790	22,093

All bank loans are denominated in US dollars and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2006 was 9.0 per cent (2005 - 4.7 per cent). The bank loans are secured on substantially the whole of the assets and undertaking of PT REA Kaltim Plantations and are the subject of an unsecured guarantee by the company.

## 20 Sterling notes

Sterling loan notes comprise £15 million nominal of 9.5 per cent guaranteed sterling notes issued for cash by the company's subsidiary, REA Finance B.V., on 4 December 2006 at a price of 98.33 per cent of par. Unless previously redeemed or purchased and cancelled by the issuer, the notes are repayable in three equal instalments commencing on 31 December 2015.

If a person or group of persons acting in concert obtains the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company, each holder of sterling notes has the right to require that the sterling notes held by such holder be repaid at 101 per cent of par, plus any interest accrued thereon up to the date of completion of the repayment.

## 21 US dollar notes

The US dollar notes comprise US\$30 million nominal of 7.5 per cent dollar notes 2012/14 of the company. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

The movement during the year was

	US\$
At beginning of year	4,972,281
Issued on acquisition of 4,244 shares in Makassar Investments Limited	19,000,000
Issued for cash	6,027,719
	30,000,000

The company's US dollar notes are designated as a hedge of the translation exposure in respect of an equivalent amount of net assets of subsidiaries whose functional currency is the US dollar.

21 US dollar notes - continued

Pursuant to a supplemental rights agreement dated 23 January 2006, the holders of \$19 million nominal of dollar notes issued as consideration for the acquisition of a minority shareholding in Makassar Investments Limited have the right, exercisable under certain limited circumstances, to require the company to purchase those dollar notes at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

22 Deferred tax	2006	2005
	£'000	£'000
Analysis for financial reporting purposes		
Deferred tax liabilities	16,961	17,372
Deferred tax assets	5,445	5,619
<b>Net position</b>	<b>11,516</b>	<b>11,753</b>
Movement in the net deferred tax position during the year		£'000
Beginning of year		11,753
Charge to income for the year		3,051
Charge to equity for the year		(1,040)
Exchange differences		(2,248)
Effect of change in tax rate		-
<b>End of year</b>		<b>11,516</b>

The following are the major deferred tax liabilities and assets recognised by the group and the movements thereon during the year and preceding year

Deferred tax liabilities	Accelerated tax depreciation	Convertible loan stock	Income*	Exchange*	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2005	13,347	160	1,021	443	14,971
Charge to income for the year	1,483	(10)	107	(225)	1,355
Charge to equity for the year	-	(150)	-	(218)	(368)
Exchange differences	1,400	-	14	-	1,414
At 31 December 2005	16,230	-	1,142	-	17,372
Charge to income for the year	1,525	-	269	-	1,794
Charge to equity for the year	-	-	-	-	-
Exchange differences	(2,068)	-	(137)	-	(2,205)
<b>At 31 December 2006</b>	<b>15,687</b>	<b>-</b>	<b>1,274</b>	<b>-</b>	<b>16,961</b>

\* included as income or recognised gains for reporting purposes but not yet charged to tax

# Notes to the consolidated financial statements continued

## 22 Deferred tax - continued

Deferred tax assets	Lower tax depreciation £'000	Expenses* £'000	Tax losses £'000	Exchange* £'000	Total £'000
At 1 January 2005	9	1,300	5,946	387	7,642
Charge to income for the year	(8)	159	(2,040)	-	(1,889)
Charge to equity for the year	-	-	-	(387)	(387)
Exchange differences	-	102	151	-	253
At 31 December 2005	1	1,561	4,057	-	5,619
Charge to income for the year	13	485	(1,755)	-	(1,257)
Charge to equity for the year	-	-	1,040	-	1,040
Exchange differences	-	(13)	56	-	43
At 31 December 2006	14	2,033	3,398	-	5,445

\* included as costs or recognised losses for reporting purposes but not yet allowed for tax

At the balance sheet date, the group had unused tax losses of £11.3 million (2005 - £13.5 million) available to be applied against future profits. A deferred tax asset has been recognised in respect of £3,398,000 (2005 - £4,057,000) of these losses.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £1,300,000 (2005 - £870,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The deferred tax asset in respect of tax losses assumes that losses for tax purposes incurred by PT REA Kaltim Plantations in Indonesia may be carried forward for eight years.

The proposed reduction in UK corporation tax from 30% to 28% (for 2008/2009) is not estimated to have a material effect on the UK component of deferred tax balances.

23 Obligations under finance leases	2006 £'000	2005 £'000
Minimum lease payments		
Amounts payable under finance leases		
Within one year	176	389
In the second to fifth years inclusive	18	199
	194	588
Less Future finance charges	23	44
Present value of lease obligations	171	544
Representing		
Amounts payable under finance leases		
Within one year	154	354
In the second to fifth years inclusive	17	190
Present value of lease obligations	171	544

23 Obligations under finance leases - continued	2006	2005
	£'000	£'000
Amount due for settlement within 12 months (shown under current liabilities)	154	354
Amount due for settlement after 12 months	17	190
	<u>171</u>	<u>544</u>

The group leases certain items of plant and equipment under finance leases. The average lease term is 1 to 2 years (2005 - 3 to 4 years). Interest rates are fixed at the contract rate. The average borrowing rate for the year was 10.0 per cent (2005 - 10.5 per cent). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Most lease obligations are denominated in Indonesian rupiahs. Obligations under finance leases are secured by the lessor's charge over the leased assets.

24 Other loans and payables	2006	2005
	£'000	£'000
Retirement benefit obligations	1,995	1,851
	<u>1,995</u>	<u>1,851</u>

The amounts are repayable as follows

On demand or within one year	202	149
In the second year	198	329
In the third to fifth years inclusive	570	455
After five years	1,025	918
	<u>1,995</u>	<u>1,851</u>

Amount due for settlement within 12 months (shown under current liabilities)	202	149
Amounts due for settlement after 12 months	1,793	1,702
	<u>1,995</u>	<u>1,851</u>

Amounts of liabilities by currency		
Sterling	1,675	1,669
US dollars	-	-
Indonesian rupiah	320	182
	<u>1,995</u>	<u>1,851</u>

The directors estimate that the fair value of the other loans and payables approximates their carrying value.

25 Trade and other payables	2006	2005
	£'000	£'000
Trade purchases and ongoing costs	2,639	1,735
Other tax and social security	203	273
Accruals	1,178	551
Other payables	285	4,563
	<u>4,305</u>	<u>7,122</u>

The average credit period taken on trade payables is 59 days (2005 - 108 days).

The directors estimate that the fair value of trade payables approximates their carrying value.

# Notes to the consolidated financial statements continued

26 Share capital	2006 £'000	2005 £'000
Authorised		
14,500,000 - 9 per cent cumulative preference shares of £1 each (2005 - 11,500,000)	14,500	11,500
41,000,000 - ordinary shares of 25p each (2005 - 38,000,000)	10,250	9,500
	<hr/> 24,750	<hr/> 21,000
Issued and fully paid		
11,449,624 - 9 per cent cumulative preference shares of £1 each (2005 - 8,502,631)	11,450	8,503
31,073,856 - ordinary shares of 25p each (2005 - 25,140,049)	7,768	6,285
	<hr/> 19,218	<hr/> 14,788

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

#### Changes in share capital

- on 22 February 2006, 1,372,000 ordinary shares were issued, fully paid, by way of a placing at 260p per share to Mirabaud Pereire Nominees Limited,
- on 18 April 2006, the authorised share capital was increased from £21,000,000 to £24,750,000 by the creation of 3,000,000 new ordinary shares of 25p each and 3,000,000 new 9 per cent cumulative preference shares of £1 each,
- on 19 April 2006, 2,828,000 ordinary shares were issued, fully paid, by way of a placing and open offer at 260p per share and 3,000,000 9 per cent preference shares were issued, fully paid, by way of placing at £1.05 per share,
- on 22 June 2006, 185,000 ordinary shares were issued, fully paid, on exercise by a director's share option at 44.4175 per share,
- on 7 August 2006, 153,400 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 132,400 were issued against subscriptions in cash at 60p per ordinary share and 21,000 against surrender of 12,600 preference shares,
- on 11 September 2006, 757,458 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 740,210 were issued against subscriptions in cash at 60p per ordinary share and 17,248 against surrender of 10,349 preference shares,
- on 9 October 2006, 371,918 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 321,822 were issued against subscriptions in cash at 60p per ordinary share and 50,096 against surrender of 30,058 preference shares, and
- on 20 October 2006, 266,031 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights against subscriptions in cash at 60p per ordinary share.

Further details of the director's share options are disclosed in the unaudited part of the directors' remuneration report, as required by IFRS 2 "Share-based payment"

27 Capital reserves	Share premium account £'000	Warrant reserve* £'000	Capital redemption reserve £'000	Special reserve £'000
Beginning of year	2,627	1,162	3,240	-
Issue of new ordinary shares	9,870	-	-	-
Issue of new preference shares	150	-	-	-
Expenses of issue	(634)	-	-	-
Exercise of warrants	1,705	(1,162)	-	-
Exercise of share options	37	-	-	-
Reduction of capital	(2,760)	-	(3,240)	6,000
Transfers	-	-	-	(4,108)
<b>End of year</b>	<b>10,995</b>	<b>-</b>	<b>-</b>	<b>1,892</b>

\* See note 28

Pursuant to a reduction of capital confirmed by the High Court and effective on 17 May 2006, the company's capital redemption reserve was cancelled and the amount standing to the credit of the company's share premium account was reduced by £2,760,334, as a result the sum of £6,000,000 was credited to a special reserve. Since that date, the company has issued fresh capital of £4,108,450 and, as permitted under the terms of the undertaking given to the High Court, has transferred an equivalent sum from special reserve to the company's profit and loss account.

28 Warrants	2006	2005
Number in issue	-	1,548,807
Premium	-	£1,162,000

At 31 December 2005, there were 1,548,807 warrants outstanding, having an issue premium of £1,162,000. Each warrant formerly entitled the holder on 31 July 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 0.7359 per cent cumulative preference shares of £1 each. Pursuant to a resolution of warrant holders passed on 18 April 2006, the terms of the warrants were amended by reducing the warrant exercise price from 73.5p to 60p (so that each warrant entitled the holder to subscribe one ordinary share at a price of 60p either by payment of 60p in cash or by surrender of 0.60 preference shares), adding two further warrant exercise dates (namely 31 August 2006 and 29 September 2006) and shortening the period during which each warrant holder could exercise his warrant rights, to the extent that a holder of warrants did not exercise his warrant rights on or before 29 September 2006, his warrants would be exercised on his behalf in October 2006, the resultant ordinary shares sold and the net proceeds of sale, after deduction of the cost of subscribing such ordinary shares, distributed to him. New ordinary shares issued during 2006 pursuant to the exercise of warrant rights are detailed in note 26.

Certain related parties were interested in the amendment of the terms of the warrants by virtue of their holdings of warrants. Those parties, the nature of their relationships with the company, their holdings of warrants at 18 April 2006 and the benefits accruing to them on the basis of the reduction in exercise price were as follows:

# Notes to the consolidated financial statements continued

## 28 Warrants - continued

	Holding	Benefit £'000
Emba Holdings Limited ( <i>substantial shareholder</i> )	41,420	6
J M Green-Armytage ( <i>director</i> )	21,000	3
R M Robinow ( <i>director</i> )	18,500	2
Mrs P E Robinow ( <i>wife of director</i> )	18,000	2
V S Robinow 1986 Settlement ( <i>director's family settlement</i> )	80,500	11
	<u>179,420</u>	<u>24</u>

## 29 Translation reserve

	£'000
Beginning of year	(5,858)
Exchange difference arising on translation of overseas operations during the year	(5,665)
End of year	<u>(11,523)</u>

## 30 Retained earnings

	£'000
Beginning of year	21,668
Profit for the year	6,208
Transfer from special reserve	4,108
Share based payment - deferred tax credit taken directly to equity	966
End of year	<u>32,950</u>

## 31 Minority interest

	£'000
The principal components of the reduction in minority interests consist of	
Share of 2006 profit after taxation	281
Proceeds of issue of new share capital in subsidiaries to minority shareholders	110
Liquidation distribution to preference shareholders in a subsidiary	(2,304)
Exchange translation differences	(276)
Acquisition of 12.3 per cent of share capital of Makassar Investments Limited	(4,011)
Reduction	(6,200)
Beginning of year	<u>6,506</u>
End of year	<u>306</u>

32 Reconciliation of operating profit to operating cash flows	2006	2005
	£'000	£'000
Operating profit	11,168	10,680
Depreciation of property, plant and equipment	843	806
Amortisation of prepaid operating lease rentals	50	19
Amortisation of sterling and US dollar note issue expenses	31	-
Biological gain	(4,677)	(4,133)
Gain on disposal of property, plant and equipment	-	(5)
Loss on disposal of investment	-	9
Operating cash flows before movements in working capital	7,415	7,376
Increase in inventories	(762)	(116)
Decrease / (increase) in receivables	542	(647)
(Decrease) / increase in payables	(1,454)	2,933
Exchange translation differences	125	(505)
Cash generated by operations	5,866	9,041
Taxes paid	(119)	(59)
Interest paid	(1,482)	(1,008)
Net cash from operating activities	4,265	7,974

Additions to property, plant and equipment during the year amounting to £nil (2005 - £184,000) were financed by new finance leases

Cash generated by operations in 2006 of £5,866,000 has been reduced by the payment of US\$6,000,000 (£3,225,000) made in February 2006 as a part of a settlement with Mr M E Zukerman and his associated interests of claims for additional interest on former loans, and for fees for past services and financial support, to REA Kaltim, a member of the group. The settlement liability was accrued as at 31 December 2005.

33 Movement in net borrowings	2006	2005
	£'000	£'000
Change in net borrowings resulting from cash flows		
Increase in cash and cash equivalents	14,712	3,742
Increase in borrowings	(1,478)	(4,423)
	13,234	(681)
Issue of US dollar notes less expenses	(2,927)	(2,745)
Issue of US dollar notes for the acquisition of minority interest in a subsidiary	(10,729)	-
Issue of sterling notes less expenses	(13,984)	-
Lease repayments	329	-
Interest charged less paid on convertible loan stock and US dollar notes	-	(35)
Conversion of convertible loan stock	-	2,367
New leases	-	(10)
	(14,077)	(1,104)
Currency translation differences	3,675	(1,967)
Net borrowings at beginning of year	(20,482)	(17,411)
Net borrowings at end of year	(30,884)	(20,482)

# Notes to the consolidated financial statements continued

## 34 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 the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets) and does not prepare valuations on an IAS 19 basis, the group accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2005. This method was adopted in the previous valuation, as at 1 January 2003, as this was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2005 the Scheme showed an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,579,000. The technical provisions were calculated using assumptions of an annual investment return of 6.1 per cent pre-retirement and 4.7 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 2.75 per cent in respect of accruals to 31 December 2005 and 2.5 per cent thereafter. The rate of increase in the retail price index was assumed to be 2.75 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PA92 tables with short cohort improvements and that members would take the maximum cash sums permitted on retirement from April 2006. Had the scheme been valued at 31 December 2005 using the projected unit method and the same assumptions, the overall deficit would have been similar. The next actuarial valuation is due at 31 December 2008.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with the principal and participating employers covering normal contributions which are payable at a rate to cover future service benefits under the Scheme. The Scheme has further agreed a recovery plan with the employers which sets out the basis for the recovery of the deficit shown by the 31 December 2005 valuation through the payment of quarterly additional contributions over the period from 1 January 2007 to 31 December 2015, after taking account of the additional contributions paid in 2006 under the 1 January 2003 valuation.

The normal contribution rate payable by the group from 1 January 2007 is 24.9 per cent (2006 and 2005 - 20.9 per cent) of pensionable salaries. The additional contribution applicable to the group for 2006 was £148,800 (2005 - £141,600) and in 2007 the additional annual contribution will rise to £206,000. The total for the period from 2007 to 2015 is £2,073,900. A liability of £1,675,000 (2005 - £1,669,000) for these additional contributions adjusted for the time value for money and an equal expense in profit or loss has been recognised within retirement benefit obligations (see note 24).

## 35 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are dealt with in the company's individual financial statements. The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

35 Related party transactions - continued	2006	2005
	£'000	£'000
Short term benefits	605	578
Post employment benefits	39	38
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	644	616

The interests of related parties in the amendment to the terms of the company's former warrants is set out in note 28

36 Rates of exchange	2006	2006	2005	2005
	Closing	Average	Closing	Average
Indonesia rupiah to pound sterling	17,679	16,981	16,907	17,756
US dollar to pound sterling	1.96	1.86	1.72	1.82

### 37 Settlement of litigation

As disclosed in previous financial statements, the company and certain of its directors and subsidiaries were for some years the object of actual and threatened legal proceedings by interests associated with Mr M E Zukerman (the "MEZ group"). The proceedings were settled on 23 January 2006. Pursuant to the litigation settlement, the group paid US\$6 million to the MEZ group as additional interest on former loans to the company's subsidiary, PT REA Kaltim Plantations, and in settlement of various claims by the MEZ group for fees for past services and financial support, and the company acquired the 12.3 per cent minority interest in the issued ordinary share capital of the company's subsidiary, Makassar Investments Limited, then owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of 75 per cent US dollar notes 2012/14. The financial effect of the acquisition of 12.3 per cent of the equity of Makassar Investments Limited is described in note 10. A settlement payment of \$6 million to the MEZ group is referred to in note 32.

### 38 Post balance sheet events

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2006 was paid on 9 February 2007. In accordance with IAS10 "Events after the Balance Sheet Date" this dividend has not been included in these financial statements.

On 24 January 2007 the company's subsidiary, REA Finance B V, issued a further £7 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 at a price of 99.6574 per cent of par. This issue ranks par passu in all respects with the previous issue of £15 million nominal referred to in note 20. The group has also entered into a cross currency interest rate swap to convert the sterling proceeds of the issue of £22 million nominal of the sterling notes into US dollars and to provide a hedge against the currency risk of the continuing liability represented by the sterling notes.

It was announced on 1 May 2007 that the company had arranged to place 1,500,000 new ordinary shares ("placing shares") at 450p per share. The placing is conditional upon admission of the placing shares to the Official List of the Financial Services Authority and to trading on the London Stock Exchange's market for listed securities. It is expected that admission will become effective and that dealings in the placing shares will commence on 8 May, 2007. The placing shares will upon issue rank par passu in all respects with the existing ordinary shares of REA. The proceeds from the placing shares are estimated to amount to £6.5 million (net of expenses of £250,000).

# Auditors' report (company)

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

We have audited the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2006 which comprise the balance sheet, the movement in total shareholders' funds, the statement of recognised gains and losses, the accounting policies and the related notes (i) to (xiv). These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2006 and on the information in 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

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information presented in the review of the group that is cross referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the directors' report, the chairman's statement and the review of the group. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the


Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 sufficient evidence to give reasonable assurance that the parent company financial statements 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 parent company financial statements.

#### Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the parent company financial statements.



**DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors

London, England

2 May 2007

# Company balance sheet

as at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Fixed and non-current assets</b>			
Investments	(i)	46,537	12,015
Deferred tax asset	(v)	2,728	-
		49,265	12,015
<b>Current assets</b>			
Debtors	(ii)	5,130	13,515
Cash		3,111	1,738
Total current assets		8,241	15,253
Creditors amounts falling due within one year	(iii)	(935)	(787)
<b>Net current assets</b>		7,306	14,466
<b>Total assets less current liabilities</b>		56,571	26,481
<b>Creditors amounts falling due after more than one year</b>			
US dollar notes	(iv)	(14,951)	(2,850)
Provision for liabilities and charges	(v)	(1,148)	(105)
<b>Net assets</b>		40,472	23,526
<b>Capital and reserves</b>			
Called up share capital	(vi)	19,218	14,788
Share premium account	(vii)	10,928	2,560
Capital redemption reserve	(vii)	-	3,240
Special reserve (non-distributable)	(vii)	1,892	-
Exchange reserve	(vii)	536	-
Warrants	(vii)	-	1,162
Profit and loss account	(vi)	7,898	1,776
<b>Total shareholders' funds</b>		40,472	23,526

Approved by the board on 2 May 2007 and signed on behalf of the board

**RICHARD M ROBINOW**

Chairman



# Movement in total shareholders' funds

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Recognised gains and losses for the financial year	2,550	177
Issue of new ordinary shares by way of placings and open offer	10,920	-
Issue of new preference shares	3,150	-
Issue of new ordinary shares on exercise of a director's share option	82	-
Issue of new ordinary shares on exercise of warrants	876	2
Issue of new ordinary shares arising on conversion of convertible loan stock	-	7
Issue of new ordinary shares arising on restructuring of balance of convertible loan stock	-	305
Issue costs of US dollar notes, ordinary shares and preference shares	(632)	(359)
	16,946	132
Shareholders' funds at beginning of year	23,526	23,394
Shareholders' funds at end of year	40,472	23,526

# Statement of recognised gains and losses

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Profit for the year	2,012	942
Dividends to preference shareholders	(965)	(765)
Share based payment - deferred tax credit	967	-
Currency translation gain taken direct to reserves	536	-
	2,550	177

In 2005, there were no gains or losses other than those recognised in the profit and loss account.

# Accounting policies (company)

## Accounting convention

Separate financial statements of R E A Holdings plc (the "company") are required by the Companies Act 2005, as permitted by that act they have been prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP") The principal accounting policies have been applied consistently and are unchanged from the previous year

The accompanying financial statements have been prepared under the historical cost convention

By virtue of section 230 of the Companies Act 2005, the company is exempted from presenting a profit and loss account Equally, no cash flow statement has been prepared, as permitted by FRS 1 (revised 1996) "Cash flow statements"

## Investments

The company's investments in its subsidiaries are stated at cost less any provision for impairment Impairment provisions are charged to the profit and loss account Only dividends received or receivable are credited to the company's profit and loss account

## 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 Differences arising on the translation of foreign currency borrowings have been offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, net of any related taxation All other exchange differences are included in the profit and loss account

## 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 any future remittance of earnings of overseas subsidiaries where no commitment has been made to remit such earnings

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

## 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 company financial statements

(i) Investments	2006	2005
	£'000	£'000
Shares in subsidiaries	24,250	7,252
Loans to subsidiaries	22,287	4,763
	<u>46,537</u>	<u>12,015</u>

	£'000
Beginning of year	12,015
Additions to shares in and loans to subsidiaries	36,502
Exchange translation difference arising on foreign currency hedge	(1,698)
Liquidation of subsidiary	(282)
End of year	<u>46,537</u>

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	100
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
REA Finance BV (Netherlands)	Group finance	Ordinary	100
REA Services Limited	Group services	Ordinary	100

The entire shareholdings in Makassar Investments Limited, REA Services Limited and REA Finance BV are held direct by the company. All other shareholdings are held by subsidiaries.

(ii) Debtors	2006	2005
	£'000	£'000
Trade debtors	–	40
Amount owing by group undertakings	5,025	12,960
Other debtors	66	482
Prepayments and accrued income	39	33
	<u>5,130</u>	<u>13,515</u>

(iii) Creditors amounts falling due within one year	2006	2005
	£'000	£'000
Amount owing to group undertakings	233	536
Other taxation and social security	112	141
Other creditors	23	29
Accruals	567	81
	<u>935</u>	<u>787</u>

# Notes to the company financial statements continued

(iv) Creditors amounts falling due after more than one year	2006	2005
	£'000	£'000
US dollar notes - after five years	14,951	2,850
	<u>14,951</u>	<u>2,850</u>

The US dollar notes comprise US\$30 million (2005 - US\$4,972,281) nominal of 7.5 per cent US dollar notes 2012/14 issued by the company. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

As disclosed in note (viii), the company's US dollar notes are designated as a hedge against the exchange translation exposure in respect of an equivalent amount of the company's investment in subsidiaries whose functional currency is the US dollar.

Pursuant to a supplemental rights agreement dated 23 January 2006, the holders of \$19 million nominal of dollar notes issued as consideration for the acquisition of a minority shareholding in Makassar Investments Limited have the right, exercisable under certain limited circumstances, to require the company to purchase those dollar notes at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

(v) Provision for liabilities and charges	2006	2005
	£'000	£'000
Deferred taxation		
Beginning of year	105	50
Net amount (credited) / charged to profit and loss account	(327)	55
Net amount credited to equity	(1,358)	-
End of year	<u>(1,580)</u>	<u>105</u>
Disclosed in provisions for liabilities and charges	1,148	105
Disclosed in non-current assets	(2,728)	-
Deferred tax (asset) / liability at end of year	<u>(1,580)</u>	<u>105</u>
Deferred taxation is provided as follows		
Timing differences	1,148	1,036
Tax losses available	(2,728)	(931)
Undiscounted provision for deferred taxation	<u>(1,580)</u>	<u>105</u>

(vi) Called up share capital	2006	2005
	£'000	£'000
Authorised		
14,500,000 - 9 per cent cumulative preference shares of £1 each (2005 - 11,500,000)	14,500	11,500
41,000,000 - ordinary shares of 25p each (2005 - 38,000,000)	10,250	9,500
	<u>24,750</u>	<u>21,000</u>
Called-up and fully paid		
11,449,624 - 9 per cent cumulative preference shares of £1 each (2005 - 8,502,631)	11,450	8,503
31,073,856 - ordinary shares of 25p each (2005 - 25,140,049)	7,768	6,285
	<u>19,218</u>	<u>14,788</u>

(vi) Called up share capital - continued

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

Changes in share capital

- on 22 February 2006, 1,372,000 ordinary shares were issued, fully paid, by way of a placing at 260p per share to Mirabaud Pereire Nominees Limited,
- on 18 April 2006, the authorised share capital was increased from £21,000,000 to £24,750,000 by the creation of 3,000,000 new ordinary shares of 25p each and 3,000,000 new 9 per cent cumulative preference shares of £1 each,
- on 19 April 2006, 2,828,000 ordinary shares were issued, fully paid, by way of a placing and open offer at 260p per share and 3,000,000 9 per cent preference shares were issued, fully paid, by way of a placing at £1.05 per share,
- on 22 June 2006, 185,000 ordinary shares were issued, fully paid, on exercise by a director's share option at 44.4175 per share,
- on 7 August 2006, 153,400 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 132,400 were issued against subscriptions in cash at 60p per ordinary share and 21,000 against surrender of 12,600 preference shares,
- on 11 September 2006, 757,458 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 740,210 were issued against subscriptions in cash at 60p per ordinary share and 17,248 against surrender of 10,349 preference shares,
- on 9 October 2006, 371,918 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 321,822 were issued against subscriptions in cash at 60p per ordinary share and 50,096 against surrender of 30,058 preference shares, and
- on 20 October 2006, 266,031 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights against subscriptions in cash at 60p per ordinary share.

Further details of the director's share options are disclosed in the unaudited part of the directors' remuneration report, as required by FRS20 "Share based payments"

(vii) Movement in reserves	Share premium account	Capital redemption reserve	Warrant reserve	Special reserve	Exchange reserve	Profit and loss account
	£'000	£'000	£'000	£'000	£'000	£'000
Beginning of year	2,560	3,240	1,162	-	-	1,776
Issue of new ordinary shares	9,870	-	-	-	-	-
Issue of new preference shares	150	-	-	-	-	-
Expenses of issue	(634)	-	-	-	-	-
Exercise of warrants	1,705	-	(1,162)	-	-	-
Exercise of share options	37	-	-	-	-	-
Reduction of capital	(2,760)	(3,240)	-	6,000	-	-
Transfer from special reserve	-	-	-	(4,108)	-	4,108
Recognised gains and losses for the year	-	-	-	-	536	2,014
End of year	10,928	-	-	1,892	536	7,898

# Notes to the company financial statements continued

## (vii) Movement in reserves - continued

At 31 December 2005, there were 1,548,807 warrants outstanding, having an issue premium of £1,162,000. Each warrant formerly entitled the holder on 31 July 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 0.7359 per cent cumulative preference shares of £1 each. Pursuant to a resolution of warrant holders passed on 18 April 2006, the terms of the warrants were amended by reducing the warrant exercise price from 73.5p to 60p (so that each warrant entitled the holder to subscribe one ordinary share at a price of 60p either by payment of 60p in cash or by surrender of 0.60 preference shares), adding two further warrant exercise dates (namely 31 August 2006 and 29 September 2006) and shortening the period during which each warrant holder could exercise his warrant rights, to the extent that a holder of warrants did not exercise his warrant rights on or before 29 September 2006, his warrants would be exercised on his behalf in October 2006, the resultant ordinary shares sold and the net proceeds of sale, after deduction of the cost of subscribing such ordinary shares, distributed to him. New ordinary shares issued during 2006 pursuant to the exercise of warrant rights are detailed in note (vi).

Certain related parties were interested in the amendment of the terms of the warrants by virtue of their holdings of warrants. Those parties, the nature of their relationships with the company, their holdings of warrants at 18 April 2006 and the benefits accruing to them on the basis of the reduction in exercise price were as follows:

	Holding	Benefit £'000
Emba Holdings Limited ( <i>substantial shareholder</i> )	41,420	6
J M Green-Armytage ( <i>director</i> )	21,000	3
R M Robinow ( <i>director</i> )	18,500	2
Mrs P E Robinow ( <i>wife of director</i> )	18,000	2
V S Robinow 1986 Settlement ( <i>director's family settlement</i> )	80,500	11
	<hr/> 179,420	<hr/> 24

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 £2,012,000 (2005 - profit £942,000).

Pursuant to a reduction of capital confirmed by the High Court and effective on 17 May 2006, the company's capital redemption reserve was cancelled and the amount standing to the credit of the company's share premium account was reduced by £2,760,334, as a result the sum of £6,000,000 was credited to a special reserve. Since that date, the company has issued fresh capital of £4,108,450 and, as permitted under the terms of the undertaking given to the High Court, has transferred an equivalent sum from special reserve to the company's profit and loss account.

## (viii) Financial instruments and risks

### Financial instruments

The company's financial instruments comprise preference shares, borrowings, cash and liquid resources and in addition certain debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the company's operations. The table below provides an analysis of the fair values of financial assets and liabilities excluding debtors and creditors.

(viii) Financial instruments and risks - continued

	2006	2006	2005	2005
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Cash and deposits	3,111	3,111	1,738	1,738
Debt - within one year	-	-	-	-
Debt - after more than one year	(14,951)	(13,776)	(2,850)	(2,896)
Net debt - book value/fair value	(11,840)	(10,665)	(1,112)	(1,158)
Preference shares	(11,450)	(12,824)	(8,503)	(8,503)
	(23,290)	(23,489)	(9,615)	(9,661)

The fair values of the US dollar notes and the preference shares reflect the last prices at which transactions in those instruments were effected prior to the year end

Risks

The main risks arising from the company's financial instruments are liquidity risk, interest rate 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 was throughout the year, the company's policy that no trading in financial instruments shall be undertaken. On occasions, the company enters into short term contracts for the sale of crude palm oil on behalf of its subsidiaries.

The company finances its operations through a mixture of new issues of equity, retained profits, borrowings in either sterling or US dollars at fixed rates and credit from suppliers. At 31 December 2006, the company had outstanding US\$30 million of 7.5 per cent dollar notes 2012/14. In accordance with a decision of the board of the company at the time of issue of the first tranche of these notes, such notes are treated as a currency hedge against the company's long term loans to subsidiaries which are denominated in US dollars and the additional investment in Makassar Investments Limited which was acquired during 2006 for a consideration of US\$19 million. The company's policy towards currency risk is not to cover the long-term exposure in respect of its investments, whose operations are mainly conducted in US dollars, to the extent that this exposure relates to the component of investment which is financed with sterling denominated equity.

A limited degree of interest rate risk is accepted. Nearly all of the company's financial instruments at 31 December 2006 carried interest at fixed rates and on the basis of the company's analysis, it is estimated that a rise of one percentage point in all interest rates would have a negligible effect on the company's profit and loss account.

(ix) 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 company has no active members of the Scheme, which is a multi-employer contributory defined benefit scheme with assets held in a trustee-administered fund and has participating employers outside the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the participating employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets), pension costs are being accounted as if the Scheme were a defined contribution scheme. The subsidiary company that is a participating employer and other participating employers in the Scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover any deficit. The company has made no payments to the Scheme in 2006 (2005 nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme, such liability will only arise if such other participating employers do not pay their contributions. There is no indication of this at the present time, and, therefore, no provision has been made.

# Notes to the company financial statements

continued

## (ix) Pensions - continued

A non-FRS 17 valuation of the scheme was last prepared, using the attained age method, as at 31 December 2005. This is considered to be the most appropriate method of calculating contributions to cover future service benefits at 31 December 2005. Had the scheme been valued at 31 December 2005 using the projected unit method and the same other assumptions, the overall deficit would have been similar. The principal actuarial assumptions adopted in this valuation were annual pre-retirement and post-retirement returns of respectively 6.1 per cent and 4.7 per cent, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions and in the retail price index of 2.75 per cent. The overall valuation deficit applicable to all participants was £3,549,000 which is being funded by special contributions by participating employers over the period to 31 December 2015. The next actuarial valuation is due at 31 December 2008.

## (x) Related party transactions

During 2006 and 2005, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report".

The interest of certain related parties to the amendment during 2006 of the terms relating to the company's former warrants is described in note (vi).

## (xi) Rates of exchange

See note 36 to the consolidated financial statements.

## (xii) Settlement of litigation

As disclosed in previous financial statements, the company and certain of its directors and subsidiaries were for some years the object of actual and threatened legal proceedings by interests associated with Mr M E Zukerman (the "MEZ group"). The proceedings were settled on 23 January 2006. Pursuant to the litigation settlement, the group paid US\$6 million to the MEZ group as additional interest on former loans to the company's subsidiary, PT REA Kaltim Plantations, and in settlement of various claims by the MEZ group for fees for past services and financial support, and the company acquired the 12.3 per cent minority interest in the issued ordinary share capital of the company's subsidiary, Makassar Investments Limited, then owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of 7.5 per cent US dollar notes 2012/14.

## (xiii) Commitments

The company has guaranteed an obligation of £20,790,000 (2005 - £22,093,000) in respect of bank loans to PT REA Kaltim Plantations and the obligation of £15 million (2005 - £nil) relating to the outstanding 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B V.

(xiv) Post balance sheet events

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2006 was paid on 9 February 2007. In accordance with FRS21 "Events after the balance sheet date" this dividend has not been included in these financial statements.

It was announced on 1 May 2007 that the company had arranged to place 1,500,000 new ordinary shares ("placing shares") at 450p per share. The placing is conditional upon admission of the placing shares to the Official List of the Financial Services Authority and to trading on the London Stock Exchange's market for listed securities. It is expected that admission will become effective and that dealings in the placing shares will commence on 8 May, 2007. The placing shares will upon issue rank par passu in all respects with the existing ordinary shares of REA. The proceeds from the placing shares are estimated to amount to £6.5 million (net of expenses of £250,000).

# Notice of annual general meeting

Notice is hereby given that the forty seventh annual general meeting of the company will be held at the London office of Ashurst at Broadgate West, 9 Appold Street, London EC2A 2HA on 5 June 2007 at 10 00 am for the following purposes

## As ordinary business

- 1 To receive the company's annual report for the year ended 31 December 2006
- 2 To approve the directors' remuneration report for the year ended 31 December 2006
- 3 To re-elect as a director Mr R M Robinow, who, having been a non-executive director for more than nine years, retires as required by the Combined Code
- 4 To re-elect as a director Mr J M Green-Armytage, who, having been a non-executive director for more than nine years, retires as required by the Combined Code
- 5 To re-elect as a director Mr J R M Keatley, who, in accordance with the articles of association and having been a non-executive director for more than nine years, retires by rotation and as required by the Combined Code
- 6 To re-elect as a director Mr D H R Killick, who was appointed since the last annual general meeting and who retires in accordance with the articles of association
- 7 To re-elect as a director Mr L E C Letts, who, in accordance with the articles of association and having been a non-executive director for more than nine years, retires by rotation and as required by the Combined Code
- 8 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 resolutions 9 and 10 will be proposed as ordinary resolutions and resolution 11 will be proposed as a special resolution

## 9 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) other than 9 per cent cumulative preference shares up to an aggregate nominal amount of £2,481,536 such authority to expire at the conclusion of the annual general meeting to be held in 2008, and
- (ii) the authority conferred on the directors pursuant to paragraph (i) 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

## 10 That

- (i) 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 nominal amount of £3,050,376 such authority to expire at the conclusion of the annual general meeting to be held in 2008, and
- (ii) the authority conferred on the directors pursuant to paragraph (i) above includes the power to make an offer or agreement which would or might require 9 per cent cumulative preference shares to be allotted after the authority has expired

## 11 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 9 set out in the notice of the annual general meeting of the company to be held in 2007, as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to the allotment, such power to expire at the conclusion of the annual general meeting of the company to be held in 2008, provided that this power is limited to

# Notice of annual general meeting continued

- (a) the allotment of equity securities in connection with a rights issue or open offer in favour of the holders of ordinary shares in the capital of the company ("ordinary shares"), where the equity securities are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by such holders, 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 than pursuant to (a) above) of equity securities up to an aggregate nominal value of £388,423, 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

2 May 2007

## 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 registered office of the company 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 company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that in relation to securities held in dematerialised form only those holders of shares registered in the register of members of the company at 6:00pm on 1 June 2007 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries specified after 6:00pm on 1 June 2007 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

The register of directors' interests in the share capital and debentures of the company and copies of letters setting out the terms and conditions of appointment of non-executive directors 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.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting.

**Any addressee of this notice who has sold or transferred all of the shares of the company held by him should pass the annual report of which this notice forms part (including the form of proxy contained therein) to the person through whom the sale was effected for transmission to the transferee or purchaser.**

# Form of proxy

## R.E.A. Holdings plc

Annual general meeting convened for 5 June 2007

I/We the undersigned, being (a) member(s) of the above-named company, hereby appoint the chairman of the meeting \_\_\_\_\_ (see notes) as my/our proxy to vote and act for me/us and on my/our behalf at the annual general meeting of the company referred to above and at any adjournment thereof

	For	Against	Vote withheld
<b>Ordinary resolutions</b>			
1 To receive the annual report for the year ended 31 December 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To approve the directors' remuneration report for the year ended 31 December 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr RM Robinow as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr JM Green-Armytage as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr JR M Keatley as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-elect Mr DHR Killick as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 To re-elect Mr LEC Letts as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To re-appoint Deloitte & Touche LLP as auditors of the company and to authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 To grant authority in accordance with section 80 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 To grant further authority in accordance with section 80 of the Companies Act 1985 in respect of preference shares of the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Special resolution</b>			
11 To grant authority in accordance with section 95 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature \_\_\_\_\_

Date \_\_\_\_\_

Initials and surname \_\_\_\_\_

Address \_\_\_\_\_

Please  
use  
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capitals

### Notes

- If it is desired to appoint any other person (who need not be a member of the company) to act as proxy, insert the name on this form and strike out the words "the chairman of the meeting"
- Please indicate with a tick in the appropriate box how or whether you wish your proxy to vote. If the form is returned without any indication as to how or whether the proxy should vote, the proxy will vote or abstain as he or she thinks fit.
- Any alterations made in this form of proxy should be initialled
- If the appointer is a corporation, this form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised. Alternatively, a company to which section 36A of the Companies Act 1985 applies may execute this form of proxy by a director and the secretary of the company or by two directors signing the form on behalf of the company (in which case the name of the company should be clearly stated)
- In the case of joint holders, the signature of any one holder will suffice
- This form (and the power of attorney or other authority if any under which it is signed, or a notorally certified copy of such power or authority) must reach the registered office of the company at the address given overleaf not less than 48 hours before the time appointed for holding the meeting
- Completion and return of a form of proxy will not prevent shareholders from attending the meeting and voting in person if they so wish

THIRD FOLD AND TUCK IN

**R.E.A. Services Limited**  
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32-36 Great Portland Street  
London  
W1W 8QX

FIRST FOLD

SECOND FOLD

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