

R.E.A.Hldgs PLC 27 April 2005 R.E.A. Holdings plc Commentary on preliminary results - 2004

Results Group profit on ordinary activities before taxation for 2004, as shown in the accompanying consolidated profit and loss account, amounted to £4,685,000. This represents an increase of 126 per cent over the profit before tax of the preceding year of £2,070,000. A higher percentage tax charge than in 2003 (when the tax charge was reduced by a number of non-recurring adjustments) nevertheless resulted in a profit after tax and minority interests of £2,641,000, some 96 per cent higher than the £1,342,000 achieved in the preceding year. The increase in 2004 profits over those of 2003 would have been even greater were it not for the strength of sterling against the US dollar (the average exchange rate was £1 = US\$ 1.84 in 2004 against £1 = US\$ 1.64 in 2003). Such strength negatively impacts the group because the group's produce is sold on the basis of US dollar prices and the value realised in sterling terms is reduced when sterling strengthens against the US dollar.

Operations The fresh fruit bunch ("FFB") crop for 2004 was 293,883 tonnes, representing 98.4 per cent of budget and some 32 per cent ahead of the 222,713 tonnes harvested in 2003. Unusually, the crop of the first six months was almost identical with that of the second six months. This reflected an extended drier spell in the second half although rainfall for the year as a whole at an average of 3,877 mm across the estates compared well with 3,550 mm in 2003, a level that was already more than satisfactory for oil palm cultivation. The crude palm oil ("CPO") extraction rate for the year was 24.3 per cent against the 24.9 per cent achieved in 2003. This lower rate reflected crop collection difficulties during the heavy rains of the first half of the year and minor teething troubles in running in the second production line that was added to the mill during 2003. Against industry norms, an extraction rate of in excess of 24 per cent is regarded as very satisfactory but, in the context of the group's operations, the directors believe that a rate of 25 per cent or better ought to be achievable. With less heavy rainfall in the second half of the year and minor modifications to production flows, the extraction rate for the second half of the year was markedly better than that of the first half. Work has started on site clearing in preparation for the construction of a second oil mill which it is planned should be brought into operation in the latter part of 2006. The new mill will eventually have a similar capacity to the existing mill but will incorporate high efficiency boilers and turbines able to power a kernel crushing plant in which it is intended that all palm kernel output from both the existing and the new mill will be crushed to produce palm kernel oil and expeller. Tenders for the construction of both the new mill and the kernel crushing plant have recently been awarded. Planting out of the first 3,000 hectares of the extension planting programme instituted in 2003 was completed in February 2005, having been slightly delayed by the drier weather of July to October 2004. A second 3,000 hectares is scheduled to be planted out during 2005 in conjunction with preparation of a further 3,000 hectares for 2006 planting. In addition, it is hoped to plant an initial 1,500 hectares of the group's new joint venture development adjacent to the south eastern boundary of the group's existing operational area on the southern side of the Belayan river. Overall, this represents a major expansion programme but in 2005, to-date at least, the expansion works have been moving forward smoothly and as planned.

Finance The year finally saw the completion of the debt restructuring of PT REA Kaltim Plantations ("REA Kaltim"), the direct owner of the established East Kalimantan operations. The key step towards achieving such completion was taken in April 2004 when REA Kaltim drew down a new loan of US\$ 11 million from PT Bank Niaga Tbk and applied that loan in repaying its outstanding indebtedness to Commerzbank (South East Asia) Limited. At the same time, the group refinanced indebtedness of US\$ 8.175 million owed to interests associated with Mr M E Zukerman (the "MEZ group"). The restructuring was then completed when those remaining lenders to REA Kaltim who had not previously acceded to the debt restructuring agreed to do so. To facilitate the REA Kaltim debt restructuring, the group purchased at a discount certain loan balances owed by REA Kaltim thereby reducing the group's overall indebtedness. The group's financial position has been further strengthened both by reinvestment of retained profits and by the issue by the company during 2004 of some 2.8 million new 9 per cent cumulative preference shares. Of these, approximately one million shares were issued pursuant to a scheme to eliminate arrears of dividend on the then outstanding issued preference shares and the balance were issued for cash. A proportion of the

resultant cash proceeds was applied in the repurchase of £250,000 nominal of the company's outstanding 4 per cent convertible loan stock 2012. The outstanding stock was further reduced by the conversion during the year into ordinary shares of some £700,000 of the stock. With the completion of the REA Kaltim debt rescheduling and the elimination of dividend arrears on the preference shares, the group is now current on all obligations. However, implementation of the group's planned planting programme (as referred to above) will require substantial investment. This could place a strain on the group's cash resources if, as could happen, CPO prices fall and the group remains obliged to make substantial further reductions in its existing indebtedness before the cash flow from the extension planting programme materialises. Accordingly, the group is currently seeking to negotiate new debt financing which would replace a substantial proportion of its existing indebtedness, provide additional liquidity and establish greater contingency margins in projected future cash flows. Litigation 2004 saw some escalation in the dispute between the group and the MEZ group with the receipt of a letter threatening to add new proceedings in Jersey to the legal proceedings in New York that were instituted by the MEZ group in 2001. Notwithstanding recent repetition of this threat, it is now expected that there will be a mediated discussion of the disputed issues in the second half of 2005. The directors retain their previously expressed view that the actual and threatened legal proceedings against the group by the MEZ group have no genuine merit but the directors accept that it would be in the best interests of the company if the position of the MEZ group in relation to its contingent entitlement to further interest from REA Kaltim (amounting to some US\$ 3 million at 31 December 2004) and its 12 per cent minority shareholding in Makassar Investments Limited was resolved. The directors are unable to judge whether, absent judicial determination of the MEZ group's claims against the group and the group's potential counterclaims, a resolution is possible but a mediated discussion of the disputed issues may at least offer a forum for exploring resolution. Dividends The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2004 were duly paid and, as already noted, all arrears of dividend on the preference shares were eliminated during 2004 by a scheme involving the issue of further preference shares. 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 these arise. The arrears of preference dividends having been eliminated, there is now no legal impediment to the payment of ordinary dividends. However, the group continues to face significant potential demands on cash both for its planned planting programme and for scheduled debt repayments (although a successful conclusion to the current negotiations for new debt financing would spread the cash requirements for the latter). In addition, with the present possibility that there may be mediated discussions with the MEZ group and that those discussions could result in a settlement of the disputes with the MEZ group, the directors must have regard to the funding obligations to which any such settlement would give rise. Against this background, the directors have concluded that they cannot recommend payment of an ordinary dividend in respect of 2004 and that, until such time as there is greater certainty as to the group's future cash flows, it would be imprudent to give any indication as to when the payment of ordinary dividends might be resumed. The directors remain committed to the restoration of ordinary dividends as soon as the directors become confident that the group's cash flow can support such dividends. Prospects Although the drier period experienced during the second half of 2004 could have caused some moisture stress, the directors are hopeful that the good rainfall received over 2004 as a whole will mean that the East Kalimantan operations will yield normally during 2005. On that basis, the FFB crop for 2005 has been budgeted at 331,000 tonnes although disruption to operations caused by severe flooding from the Belayan and Mahakam rivers following exceptionally heavy rainfall during April 2005 could mean that this target may prove a little ambitious. The CPO market presents a slightly uncertain picture with good current offtake being tempered by the uncertainties of a significant overhang of uncrushed soybean resulting from the record soybean crops harvested in the United States and Brazil in the past year. Against this, increasing production of biodiesel is resulting in significantly greater industrial usage of vegetable oils. CPO prices at the start of 2005 fell below US\$ 400 per tonne CIF Rotterdam but have since

recovered back to the US\$ 420 to US\$ 440 range. Higher world freight rates have in the past twelve months increased the differential between CIF and FOB values but CPO prices of over US\$ 400 per tonne CIF still provide the group with more than acceptable margins. Accordingly, the directors expect that 2005 will prove another good year. Looking beyond 2005, it must be recognised that the group is dependent upon a single commodity and that commodity markets are inherently cyclical. Accordingly, fluctuations must be expected in the group's results and there is little that the group can do to mitigate such fluctuations. What the group can do, and is doing, is expand its planted hectareage and, through that expansion, progressively increase its productive capacity. Whilst such progressive increase cannot be guaranteed to offset the negative effects of price reductions during a cyclical downturn, the directors believe that, viewing the returns of the group over each commodity cycle as a whole, the present development programme offers the prospect of increasing returns for many years to come.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	2004	2003	£000	£000
Turnover	16,052	13,781		
Cost of sales	(7,530)	(7,469)		
Gross profit	8,522	6,312		
Administrative expenses	(2,359)	(2,236)		
Group operating profit	6,163	4,076		
Disposal of fixed assets and investments - continuing	7	24		
Disposal of fixed assets and investments - discontinued	(281)			
Interest receivable and similar income	157	165		
Interest payable and similar charges	(1,642)	(1,914)		
Profit on ordinary activities before taxation	4,685	2,070		
Tax on ordinary activities	(1,320)	(345)		
Profit on ordinary activities after taxation	3,365	1,725		
Minority interests - equity	(528)	(203)		
Minority interests - non-equity	(196)	(180)		
Profit for the financial year	2,641	1,342		
Non-equity dividends	(639)	(513)		
Retained profit for the year	2,002	829		
Earnings per share - basic	10.1p	5.1p		
Earnings per share - fully diluted	7.6p	3.7p		

All operations in both years are continuing except where stated.

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2004

	2004	2003	£000	£000
Fixed assets				
Tangible fixed assets	52,174	50,238		
Current assets				
Stocks	1,248	1,346		
Debtors	3,307	3,710		
Investments	1,067			
Cash	1,061	6,790		
Current liabilities				
Creditors falling due within one year	(6,631)	(15,244)		
Net current assets/(liabilities)	52	(3,398)		
Total assets less current liabilities	52,226	46,840		
Creditors: falling due after more than one year				
Convertible debt	(2,837)	(3,463)		
Other creditors	(13,402)	(15,312)		
Provision for liabilities and charges (deferred tax)	(2,107)	(288)		
Net assets	33,880	27,777		
Capital and reserves				
Called up share capital	13,533	10,376		
Share premium account	3,858	4,665		
Capital redemption reserve	3,240	3,240		
Warrants	1,164	1,212		
Revaluation reserve	852	(384)		
Other reserve	1,027			
Profit and loss account	6,362	3,333		
Shareholders' funds	29,009	23,469		
Equity minority interests	2,721	2,002		
Non-equity minority interests	2,150	2,306		
Total capital employed	33,880	27,777		

Shareholders' funds may be analysed as follows:

	2004	2003	£000	£000
Equity interests	20,506	16,737		
Non-equity interests	8,503	6,732		
	29,009	23,469		

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2004

	2004	2003	£000	£000
Profit for the financial year	2,641	1,342		
Currency translation adjustments	(1,688)	(2,175)		
Revaluation adjustments	2,924	2,325		
	3,877	1,492		

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	2004	2003	£000	£000
Net cash flow from operating activities	5,694	7,259		
Returns on investments and servicing of finance				
Interest received	54	165		
Interest paid	(800)	(1,914)		
Preference dividends paid	(639)	(257)		
	(1,385)	(2,006)		
Taxation	(118)	(11)		
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(3,420)	(4,675)		
Purchase on investments	(1,067)			
Sale of tangible fixed assets	15	40		
Sale of investments	597			
	(4,472)	(4,038)		
Equity dividends paid				
Cash (outflow)/inflow before management of liquid resources and financing	(281)	1,204		
Management of liquid resources	5,908	(4,226)		
Financing				
Issue of ordinary share capital and expenses	47	4,901		
Issue of preference share capital and expenses	1,600			
Net increase/(repayment) of debt over one year	520	(2,619)		
Net (repayment) of debt up to one year	(6,974)			
Finance lease repayments	(411)	(244)		
	(5,218)	2,038		
Increase/(decrease) in cash in the year	409	(984)		

NOTES TO PRELIMINARY RESULTS

Basis of preparation The financial statements have been prepared in accordance with accounting standards applicable in the United Kingdom. The principal

accounting policies have been applied consistently. Segment information In the tables below, the group's turnover, net assets and profit before taxation are analysed by geographical area. No analysis of these items is provided by business class as the group only operates within the agricultural sector with any other income being incidental to that activity. Net assets are allocated to the area in which the activity related to the assets is located. Unaudited 2004 2003 £'m £'m Turnover by geographical origin: United Kingdom 0.1 0.2 Indonesia 16.0 13.6 ---- 16.1 13.8 ---- Turnover by geographical destination: United Kingdom 0.1 0.2 Indonesia 11.4 10.4 Other Asia 4.6 3.2 ---- 16.1 13.8 ---- Net assets by geographical origin: United Kingdom (2.3) (2.5) Indonesia 36.2 30.3 ---- 33.9 27.8 ---- Unaudited 2004 2003 £000 £000 Profit by geographical origin: United Kingdom (1,423) 956 Indonesia 6,101 1,371 ----- 4,678 2,327 Disposal of assets and investments 7 (257) ----- 4,685 2,070 ----- Interest payable and similar charges: Interest payable on bank loans and overdrafts 1,134 1,833 Interest payable on other loans 375 1,209 ----- 1,509 3,042 Interest capitalised (606) (1,128) ----- 903 1,914 Realised loss on repayment of long term intra-group foreign currency loans 739 - ----- 1,642 1,914 ----- Unaudited 2004 2003 £000 £000 Taxation: UK corporation tax charge - - Relief for overseas tax - - ----- Overseas tax 118 57 Adjustments in respect of prior periods - - ----- Total current tax 118 57 Deferred tax 1,202 288 ----- Tax charge on profit on ordinary activities 1,320 345 ----- Contingent liability In November 2001, Bodley Investment Company, M.E. Zukerman & Co. Incorporated and M.E. Zukerman Investment Limited ("the plaintiffs"), being entities associated with Mr M. E. Zukerman, commenced an action in New York against the company and two of its directors personally ("the defendants") asserting claims for fraud, fraudulent inducement, breach of contract, promissory estoppel and tortious interference in relation to a purported oral agreement between the company and the plaintiffs to cause Makassar Investments Limited ("Makassar") and / or PT REA Kaltim Plantations ("REA Kaltim") to pay a return of 30 per cent per annum on monies totalling US\$ 13.65 million originally lent to REA Kaltim by, or with the support of, the plaintiffs (which monies, plus current interest, were repaid in 2004). The company entered into no such agreement as is alleged by the plaintiffs. Accordingly, the directors consider that the claims are without merit. On the basis of legal advice received, the defendants filed a motion to have the claims dismissed in their entirety. A New York magistrate judge (to whom the motion for dismissal was referred) recommended, in September 2002, that, save for one minor component of one claim for fraud, all claims for fraud, fraudulent inducement and tortious interference should be dismissed but that the remaining claims, which are all contract related, should proceed against the company (on the grounds that such claims could not be dismissed without investigation of the factual background which is not possible on a motion for dismissal). The plaintiffs have objected to the magistrate's recommendations as respects most of the claims recommended for dismissal and the defendants have objected as respects the magistrate's recommendation to retain the minor component of one claim for fraud. A final ruling on these matters is still awaited. In addition, in June 2004, solicitors acting for Bodley Investment Company and The Zukerman Family Trust (another entity associated with Mr M.E. Zukerman) in their capacity as shareholders in Makassar ("the dissident shareholders") wrote to the company and Makassar Participation plc ("MP"), claiming that the affairs of Makassar had been conducted in a manner which was unfairly prejudicial to the dissident shareholders' interests and threatening that, absent satisfactory proposals to resolve the matter, the dissident shareholders would commence proceedings in Jersey for, amongst other things, orders that the boards of Makassar and REA Kaltim be reconstituted to include equal representation of the dissident shareholders, that substantially all of the Makassar shares acquired by MP in 2002 be redeemed or disenfranchised, that the 2002 and 2003 Makassar rights issues be set aside and that the dissident shareholders be entitled to bring civil proceedings on behalf of Makassar against certain directors of Makassar and the company in respect of alleged breaches of duty and abuses of majority control. Having reviewed this latest claim against the history of Makassar and REA Kaltim, the funding thereof and the company's dealings with Mr M. E. Zukerman and entities associated with him, the directors believe, based on legal advice received, that this latest claim is also without merit. Nevertheless, and notwithstanding a

recent repetition of the threat that the dissident shareholders will commence proceedings in Jersey, it has been agreed in principle that an attempt should be made to resolve the disputes the subject of the actual New York proceedings and the threatened Jersey proceedings by way of mediation. It is expected that mediated discussions to this end will take place in the second half of 2005.

Announcement based on draft financial statements The financial information set out in the announcement does not constitute the company's statutory financial statements for the year ended 31 December 2004 or 2003. The financial information for the year ended 31 December 2003 is derived from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985. The statutory financial statements for the year ended 31 December 2004 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting. This information is provided by RNS The company news service from the London Stock Exchange