

R.E.A. Holdings plc (RE.)
R.E.A. Holdings plc: Annual report in respect of 2020

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R.E.A. HOLDINGS PLC (the "company")

ANNUAL FINANCIAL REPORT 2020

The company's annual report for the year ended 31 December 2020 (including notice of the annual general meeting to be held on 10 June 2021) (the "annual report") will shortly be available for downloading from the group's website at www.rea.co.uk.

A copy of the notice of annual general meeting will also be available to download from the Investors section (under Shareholder information) of the website. The company has arranged for shareholders to be able to listen to the live proceedings of the meeting via an audio webcast available to shareholders via the internet. Shareholders are advised to check the home page of the website for details of how to access the AGM webcast.

Upon completion of bulk printing, copies of the annual report will be despatched to persons entitled thereto and will be submitted to the National Storage Mechanism to be made available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

The sections below entitled "Chairman's statement", "Dividends", "Principal risks and uncertainties", "Viability statement", "Going concern" and "Directors' responsibilities" have been extracted without material adjustment from the annual report. The basis of presentation of the financial information set out below is detailed in note 1 to the financial statements below.

HIGHLIGHTS

Overview

- Limited Covid-19 effect on operations; revenues increased and FFB crop consistent with previous years
- Steady recovery and firm CPO prices with corresponding improvement in group's financial performance

Financial

- Revenue up 11 per cent to \$139.1 million (2019: \$125.0 million)
- Cost of sales reduced by 10 per cent to \$110.2 million (2019: \$121.8 million) in part reflecting a full year of the cost saving initiatives implemented in previous year
- EBITDA more than doubled to \$36.8 million and cash generated doubled to \$53.6 million
- Pre-tax loss significantly reduced to \$23.2 million (2019: loss of \$43.7 million), after non-recurring impairment and similar charges of \$9.5 million (2019: \$3.3 million)
- Repayment date of £30.9 million nominal of 8.75 per cent sterling notes extended from 2020 to 2025
- \$7.5 million of loan from DSN converted to equity in REA Kaltim and repayment date of balance of loan of \$11.1 million postponed from 2020 to 2025
- Advanced stage discussions to replace outstanding bank loans to REA Kaltim and SYB with new term loans of longer duration, substantially increasing the net bank funding available to the group over the next three years

- Group net indebtedness reduced from \$207.8 million in 2019 to \$189.4 million in 2020

Agricultural operations

- FFB production of 785,850 tonnes (2019: 800,666 tonnes) despite excessively wet weather and Covid-19 related travel restrictions impacting harvester availability in peak cropping months
- Third party FFB of 185,515 tonnes (2019: 198,737 tonnes)
- Pressure on CPO extraction rates from adverse Covid-19 impact on progress of mill works and sub-optimal loose fruit collection in the peak crop period, with average extraction rate of 22.5 per cent (2019: 23.0 per cent)

Stone and coal interests

- Arrangements progressing for quarrying of the andesite stone concession (held by local partner, ATP) to produce crushed stone for a neighbouring coal company road through the group's estates, for local government projects and for other local users of crushed stone
- With better coal prices and Covid-19 concerns subsiding, activity at the Kota Bangun coal concession (held by local partner, IPA) resumed with the contractor aiming to commence operations later in 2021
- Revenue from IPA coal operations also expected in 2021 from shipping coal on behalf of other coal concessions through IPA's port
- Group aiming to recover its loans to the coal concession holding companies and to withdraw from its coal interests as soon as practicable
- Unmeritorious arbitration claims against IPA dismissed and indemnity costs awarded to and recovered by IPA

Outlook

- CPO prices expected to remain firm at or around current levels with growth in global demand for vegetable oils outstripping the growth in supply
- Annual capital expenditure to be maintained at recent more moderate levels; 2021 expenditure to be concentrated on completing expansion of the group's newest oil mill and extension planting of remaining small pockets of land available in existing estates
- Firm CPO prices and steady operational performance underpinning the group's improving financial position and outlook
- Financing options, including equity, equity-linked instruments and trade finance, being explored to strengthen the balance sheet
- Preference dividends arising in 2021 to be paid during the year with the group aiming progressively to catch up preference dividend arrears as soon as circumstances prudently permit

CHAIRMAN'S STATEMENT

2020 was a year of two halves. While operationally, satisfactory crop yields were achieved, the sharp fall in the market prices of CPO and CPKO immediately following the onset of the Covid-19 pandemic had a significant negative impact on results for the first half. As prices steadily recovered through the second half, there was a corresponding improvement in financial performance.

Operationally, the impact of Covid-19 on the group has been limited. The group experienced delays in deliveries of some supplies, as well as travel restrictions that prevented or delayed employees and contractors from returning to the estates. Changes to work practices, on-site testing of employees and other preventative measures, as recommended in the Indonesian government's guidelines, have been introduced and it is pleasing to report that, to date, only some 0.2 per cent of the work force has been infected with Covid-19, the majority with no serious symptoms as categorised by the Indonesian health department.

Climatic factors and respect for the environment are integral to the operations of an agricultural group and the directors are conscious of, and seek to mitigate as far as possible, the impacts of climate change. For some years the group has been monitoring and publishing its carbon footprint calculated by using PalmGHG, a tool developed by the Roundtable on Sustainable Palm Oil. For 2020, emissions are now disclosed under "Sustainability" in the "Strategic report" of the annual report in accordance with the recently implemented Streamlined Energy and Carbon Reporting rules ("SECR"); emissions under PalmGHG as well as SECR will continue to be published on the group's website at www.rea.co.uk.

After an encouraging start to the year, the CPO price fell sharply to a low of \$510 per tonne, CIF Rotterdam, in mid May, reflecting the dramatic slowdown in world demand as a result of Covid-19. The recovery in the second half of the year saw prices closing the year at \$940 per tonne as a result of restocking in India and China and reduced production in the major producing countries.

Unfortunately, producers were not able to realise the full benefit of the price increase as the Indonesian government made changes to the export levy scale in order to fund continuing subsidies to Indonesian manufacturers of biodiesel, who were under pressure from relatively low crude oil prices, and to support measures designed to benefit the oil palm industry.

Notwithstanding the impact of export duty and the increased export levy (as set out in the company's press release in December 2020), gross margins in 2020 were a considerable improvement on 2019. The average selling price for the group's CPO in 2020, on an FOB basis at the port of Samarinda, net of export levy and duty, was \$558 (2019: \$453) per tonne. The average selling price for the group's CPKO, on the same basis, was \$601 (2019: \$533) per tonne.

Despite the impact of delayed crop ripening and excessively wet weather in the second half of the year, as well as some shortfall in the availability of harvesters who were unable to travel to the estates due to Covid-19 related travel restrictions, the group achieved a good production outcome in 2020. FFB at 785,850 tonnes were slightly short of the total for 2019 of 800,666 tonnes, producing a yield per mature hectare of 22.6 tonnes (2019: 24.2 tonnes). Third party harvested FFB was similarly impacted in 2020, with FFB totalling 185,515 tonnes compared with 198,737 tonnes in 2019.

CPO production totalled 213,536 tonnes in 2020 compared with 224,856 tonnes in 2019, reflecting both the lower level of FFB and lower extraction rates. CPO extraction rates, which averaged 22.5 per cent for the year compared with 23.0 per cent in 2019, were squeezed by a combination of delays in completing scheduled works in the mills and some inefficiencies in loose fruit collection during the peak crop period in the latter months of the year. The mill works were delayed by a shortage of spare parts and the unavailability of contractors during the worst periods of the Covid-19 pandemic. Production of both CPKO and palm kernels fared better by contrast at, respectively, 16,164 (2019: 15,305) tonnes and 47,186 tonnes (2019: 46,326).

Revenue for 2020 amounted to \$139.1 million, approximately 11 per cent higher than the \$125.0 million for 2019, reflecting the higher prices for CPO and CPKO during the second half of the year. With a full year's benefit of the cost saving initiatives implemented during 2019, cost of sales was successfully reduced by some 10 per cent to \$110.2 million compared with \$121.8 million in 2019. These improvements led to a doubling of earnings before interest, taxation, depreciation and amortisation ("EBITDA") to \$36.8 million in 2020 (2019: \$18.2 million) and a significant improvement in the operating result, a profit of \$8.8 million in 2020 (2019: loss of \$9.1 million).

Finance costs for the year totalled \$23.1 million compared with \$31.9 million in 2019, although the comparison is distorted by exchange rate movements (arising in relation to sterling and rupiah borrowings) which produced a loss of \$0.3 million in 2020 compared with a loss of \$8.6 million in 2019. Moreover, additional finance costs of \$2.2 million were incurred in 2020 in connection with the extension of the repayment date of the £30.9 million 8.75 per cent sterling notes from 2020 to 2025. Excluding such movements, with the reduction in average borrowings between 2019 and 2020, finance charges were slightly lower in 2020 at \$20.6 million against \$23.3 million in 2019.

Impairment costs, consisting principally of provisions against costs of transferring land to smallholder schemes and expenditure on a land allocation that has been relinquished and therefore written off, amounted to \$9.5 million compared with \$3.3 million in 2019. In consequence, the group made a loss before tax of \$23.2 million compared with \$43.7 million in 2019.

Immediate cash constraints and the prospect of the very significant debt repayments falling due in 2021 and 2022 caused the directors again to defer payment of dividends on the preference shares.

Group equity (including preference share capital) at 31 December 2020 totalled \$225.8 million compared with \$239.7 million at 31 December 2019. The group's local partner in REA Kaltim supported the group in increasing the equity of REA Kaltim during 2020, converting \$7.5 million of loans to REA Kaltim into new equity. Similar changes to the

capital structures of CDM, KMS and SYB resulted in new equity being contributed by the minority shareholders of those subsidiaries resulting in an overall increase in the equity of REA Kaltim and its subsidiaries of \$9.9 million. As a result, non-controlling interests at 31 December 2020 amounted to \$20.0 million compared with \$13.0 million at 31 December 2019.

Current liabilities shown by the consolidated balance at 31 December 2020 amounted to \$113.1 million, reflecting the inclusion of amounts totalling \$30.5 million of loans from the group's Indonesian bankers, PT Bank Mandiri (Persero) Tbk ("Mandiri"), to SYB and KMS that would have been classified as non-current liabilities were it not for certain breaches by those companies of loan covenants applicable at the balance sheet date. Mandiri has subsequently waived the breaches in question.

Bank indebtedness was reduced by \$15.8 million in 2020, although the reduction was in part financed by increased pre-sale advances from customers against forward sale commitments of CPO and CPKO. As at 31 December 2020, net indebtedness amounted to \$189.4 million, compared with \$207.8 million at 31 December 2019.

Proposals are currently under discussion with Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years while the new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, net bank funding available to the group over the three years to end 2023 would be substantially increased.

Concurrently with the discussions with Mandiri, the directors have been exploring other financing options, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance with the aim of strengthening the group's balance sheet and addressing the arrears of preference dividend.

Provided that CPO prices remain at current levels, the directors believe that cash flows are currently adequate to support payment of the current year's preference share dividends but, pending greater certainty on future cash flows, they are not yet in a position to provide guidance regarding payment of the arrears of preference dividend, which now stand at 18p per share. The directors recognise the importance of paying these arrears and will aim progressively to catch up such arrears as soon as circumstances prudently permit.

The group aims to recover its loans from the coal concession holding companies and to withdraw from its coal interests as soon as practicable. Following a recovery in Indonesian coal prices, activity is now resuming at the Kota Bangun coal concession held by the group's local partners in its stone and coal interests with a view to commencing operations later in 2021. Additional revenues are expected to accrue to the concession holding company, PT Indo Pancadasa Agrotama ("IPA"), from fees charged to two neighbouring coal concessions that are planning to ship coal through IPA's port, as well as potentially through the sale of building sand recovered from the overburden that will be removed when mining recommences.

During 2020, the stone concession holding company entered into an agreement with a neighbouring coal company to supply andesite stone for a new road to be built by the coal company through the group's estates. After being put on hold for much of the year due to Covid-19, road building works are now being progressed. For both the coal mining and stone quarrying projects, it is intended that the appointed contractors will fund the required development expenditure in exchange for a participation in the profits from the mine or quarry.

The first few months of 2021 have seen continuing firm CPO prices. At reference prices (being prices broadly equivalent to CIF Rotterdam prices) between \$770 and \$1,000 per tonne, an Indonesian exporter of CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. However, the CPO price, CIF Rotterdam, currently stands at \$1,240 per tonne and exporters benefit from approximately half of the excess of this price over \$1,000. With these good prices, the group's financial position and outlook continues to improve. Production is at good levels, and maintenance and completion of repair works throughout the operations should enhance efficiencies between the estates and mills leading to improving extraction rates. Whilst some capital expenditure will necessarily be incurred on replacement of plant, replanting of the oldest plantings and limited extension planting, completion of the extension of the group's newest mill, which was delayed by the Covid-19 pandemic, will ensure that the group continues to have sufficient processing capacity for the foreseeable future. With better cash flows, the group looks forward to strengthening the group balance sheet and addressing the arrears on the preference dividend.

David J BLACKETT
Chairman

DIVIDENDS

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. The group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, and aims progressively to catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2020 even if this were permitted.

ANNUAL GENERAL MEETING

The sixty first annual general meeting of R.E.A. Holdings plc will be held at 32-36 Great Portland Street, London W1W 8QX on 10 June 2021 at 10.00 am.

Attendance

Ordinarily, the company welcomes shareholders to attend the annual general meeting in person and particularly so after the restrictions necessitated by the Covid-19 pandemic that prevented in-person meetings in 2020. At the time of publication of this Notice, however, the UK Government's guidance with respect to Covid-19 does not permit the company to hold large in-person meetings. Accordingly, the annual general meeting is to be held as a closed meeting with the minimum attendance required to form a quorum.

Shareholders and others entitled to attend will not be permitted to attend the annual general meeting in person but can be represented by the chairman of the meeting acting as their proxy.

Shareholders are:

- a) strongly encouraged to submit a proxy vote on each of the resolutions in the notice in advance of the meeting:
 - (i) via the website of the registrars, Link Group ("Link"), at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 8 June 2021) or via the CREST electronic proxy appointment service; or
 - (ii) by completing, signing and returning a form of proxy to Link as soon as possible and, in any event, so as to arrive by no later than 10.00 am on 8 June 2021

and given the restrictions on attendance, shareholders are strongly encouraged to appoint the chairman of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting.

- b) encouraged to submit ahead of the meeting any questions for the directors, together with the name of the submitting shareholder (and, if different, the name of the registered shareholder as it appears on the company's register of members) to the following email address: AGM2021@rea.co.uk so as to be received by no later than 5.00 pm on 7 June 2021. Shareholders are directed to the notes pages of the notice for guidance on members' rights to ask questions and when the company will cause them to be answered.

The company:

- a) has arranged for shareholders to be able to listen to the live proceedings of the meeting via an audio webcast available to shareholders via the internet. Shareholders are advised to check the home page of the group's website at www.rea.co.uk for details of how to access the AGM webcast. Please note that shareholders will not be able to actively participate in the meeting by voting on the resolutions during the webcast. Accordingly, and as noted above, shareholders are encouraged to vote on the resolutions and to submit questions in advance of the meeting, although questions may also be submitted via the webcast during the meeting; and

- b) will continue to closely monitor the situation in the lead up to the meeting and will make any further updates about the meeting on the home page and the Investors section (under Regulatory news) of the group's website at www.rea.co.uk. Shareholders are accordingly requested to watch the group's website for any such further updates.

The health and wellbeing of the company's shareholders, directors and employees, is of paramount importance and the company shall take such further steps in relation to the meeting as are appropriate with this in mind.

The directors and the chairman of the meeting and any person so authorised by the directors reserve the right, as set out in article 67 in the company's articles of association, to take such action as they think fit for securing the safety of people at the meeting and promoting the orderly conduct of business at the meeting.

PRINCIPAL RISKS AND UNCERTAINTIES

The group's business involves risks and uncertainties. Identification, assessment, management and mitigation of the risks associated with environmental, social and governance matters forms part of the group's system of internal control for which the board has ultimate responsibility. The board discharges that responsibility as described in "Corporate governance" in the annual report.

Those principal risks and uncertainties that the directors currently consider to be material or prospectively material are described below. There are or may be other risks and uncertainties faced by the group (such as future natural disasters or acts of God, such as the Covid-19 pandemic) that the directors currently deem immaterial, or of which they are unaware, that may have a material adverse impact on the group.

In addition to the risks that have long been normal aspects of its business, the group faced potential impacts from the Covid-19 pandemic in 2020 and continues to do so. Assessment of the continuing risk of this pandemic is measured against the impacts experienced to date and the likelihood of further impacts in the future. The pandemic has had limited direct effect on the group's day to day operations, albeit that it has necessitated changes to certain working practices, but there was a negative impact on markets for CPO and CPKO in 2020, the extent of which is covered elsewhere in the "Strategic report". Potential future consequences of Covid-19 could include a further economic downturn depressing prices for CPO and CPKO, adverse effects on employee health, loss of production and inability to make deliveries of palm products. Each of these could then negatively affect the group's finances. However, as economies have firmed, CPO and CPKO prices have strengthened and with the gradual rollout of vaccines, the risks associated with Covid-19 to the group's employees, production, deliveries and markets are diminishing.

The risks detailed below as relating to "Agricultural operations - Expansion" and "Stone and coal interests" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and the stone and coal concessions in which the group holds interests are not currently being mined. However, such risks will apply when, as is contemplated, expansion and mining are resumed or commence. The effect of an adverse incident relating to the stone and coal interests, as referred to below, could impact the ability of the stone and coal companies to repay their loans. As noted in the "Strategic report" of the annual report, it is ultimately the group's intention to withdraw from its coal interests.

Material risks, related policies and the group's successes and failures with respect to environmental, social and governance matters and the measures taken in response to any failures are described in more detail under "Sustainability" in the annual report. Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk, but such management cannot provide insurance against every possible eventuality.

The directors have carefully reviewed the potential impact on its operations of the various possible outcomes following the termination of UK membership of the European Union ("Brexit"). Such outcomes may result in a movement in sterling against the dollar and rupiah with consequential impact on the group dollar translation of its sterling costs and sterling liabilities. The directors do not believe that such impact (which could be positive or negative) would be material in the overall context of the group. Beyond this, and considering that the group's entire operations are in Indonesia, the directors do not see Brexit as posing a significant risk to the group.

Risks assessed by the directors as being of particular significance, including climate change, are those detailed below under:

- "Agricultural operations - Produce prices"

- "General - Funding"
- "Agricultural operations - Climatic factors"
- "Agricultural operations - Other operational factors".

The directors' assessment, as respects produce prices and funding, reflects the key importance of those risks in relation to the matters considered in the "Viability statement" in the "Directors' report" of the annual report and, as respects climatic and other factors, the negative impact that could result from adverse incidence of such risks.

Risk	Potential impact	Mitigating or other relevant considerations
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates offers a viable alternative route for transport with any associated additional cost more than outweighed by avoidance of the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
Cultivation risks		
Failure to achieve optimal upkeep standards	A reduction in harvested crop resulting in loss of potential revenue	The group has adopted standard operating practices designed to achieve required upkeep standards
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
Other operational factors		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and has established biogas plants to improve its self-reliance in relation to fuel

A hiatus in harvesting, collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain a sufficient complement of harvesters within its workforce to harvest expected crops and to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection of CPO and CPKO from the transshipment terminal	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB harvesting or processing with a resultant loss of crop and consequential loss of potential revenue	The group's bulk storage facilities have adequate capacity and further storage facilities are afforded by the fleet of barges. Together, these have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage and may be expanded to accommodate anticipated increases in production
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices

Produce prices

Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	Price 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
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export charges	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	The Indonesian government allows the free export of CPO and CPKO but applies sliding scales of charges on exports, which are varied from time to time in response to prevailing prices, to allow producers economic margins. The export levy charge funds biodiesel subsidies and thus supports the local price of CPO and CPKO
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries, for example, by imposition of reciprocal trade barriers or tariffs between major economies	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils

Expansion

Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds significant fully titled or allocated land areas suitable for planting. It works continuously to maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as
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		practicable, that it will be able to fund any planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the continued growth of the group	A possible adverse effect on market perceptions as to the value of the company's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances

Climate change

Changes to levels and regularity of rainfall and sunlight hours	Reduced production	A negative effect on production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply, which would be likely to result in higher prices for CPO and CPKO in turn providing at least some offset against reduced production
Increase in water levels in the rivers running through the estates	Increasing requirement for bunding or loss of plantings in low lying areas susceptible to flooding	Only five to ten per cent of the group's existing plantings are in low lying or flood prone areas. These areas are being bunded, subject to environmental considerations

Environmental, social and governance practices

Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity

Community relations

A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the	Disruption of operations, including blockages restricting access to the area	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has

cultivation of crops or as respects which local communities otherwise have rights	the subject of the disputed compensation	developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	Where claims from individuals in relation to compensation agreements are found to have a valid basis the group seeks to agree a new compensation arrangement; where such claims are found to be falsely based the group encourages appropriate action by the local authorities

Stone and coal interests

Operational factors

Failure by external contractors to achieve agreed production volumes with optimal stripping values or extraction rates	Under recovery of receivables	The stone and coal concession companies endeavour to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to or under recovery of receivables	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays or failure to achieve projected production	The stone and coal concession companies seek to ensure the accuracy of geological assessments of any extraction programme

Prices

Local competition reducing stone prices and volatility of international coal prices	Reduced revenue and a consequent reduction in recovery of receivables	There are currently no other stone quarries in the vicinity of the stone concessions and the cost of transporting stone should restrict competition. The high quality of the coal in the main coal concession may limit volatility
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in recovery of receivables	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality

Environmental, social and governance practices

Failure by the stone and coal interests to meet the standards expected of them	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The stone and coal concession companies are committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement
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of quarried and mined areas on completion of extraction operations

General

Currency

Strengthening of sterling or the rupiah against the dollar

Adverse exchange movements on those components of group costs and funding that arise in rupiah or sterling

As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where practicable the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments

Funding

Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements

Inability to meet liabilities as they fall due

The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles or waive covenants when circumstances require as was the case when waivers of certain breaches of bank loan covenants by group companies at 31 December 2020 were subsequently waived; moreover, the directors believe that the fundamentals of the group's business will normally facilitate procurement of additional equity capital should this prove necessary

Counterparty risk

Default by a supplier, customer or financial institution

Loss of any prepayment, unpaid sales proceeds or deposit

The group maintains strict controls over its financial exposures which include regular reviews of the creditworthiness of counterparties and limits on exposures to counterparties. Sales are generally made on the basis of cash against documents

Regulatory exposure

New, and changes to, laws and regulations that affect the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation)

Restriction on the group's ability to retain its current structure or to continue operating as currently

The directors are not aware of any specific planned changes that would adversely affect the group to a material extent; current regulations restricting the size of oil palm growers in Indonesia will not impact the group for the foreseeable future

Breach of the various continuing conditions attaching to the group's land rights and the stone and coal concessions (including conditions requiring utilisation of the rights and concessions) or failure to maintain all permits and licences required for the group's operations

Civil sanctions and, in an extreme case, loss of the affected rights or concessions

The group endeavours to ensure compliance with the continuing conditions attaching to its land rights and concessions and that its activities and the activities of the stone and coal concession companies are conducted within the terms of the licences and permits that are held and that licences and permits are obtained and renewed as necessary

Failure by the group to meet the standards expected in relation to

Reputational damage and criminal sanctions

The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations

human rights, slavery, anti-bribery and corruption

are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index

Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners

Constraints on the group's ability to recover its investment

The group endeavours to maintain good relations with local partners to ensure that returns appropriately reflect agreed arrangements

Country exposure

Deterioration in the political or economic situation in Indonesia

Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation

In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems

Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia

Restriction on the transfer of fees, interest and dividends from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends; loss of effective management control

The directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any Indonesian government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations

Mandatory reduction of foreign ownership of Indonesian plantation operations

Forced divestment of interests in Indonesia at below market values with consequential loss of value

The group accepts there is a significant possibility that foreign owners may be required over time to divest partially ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. Moreover, the group has local participation in all its Indonesian subsidiaries

Miscellaneous relationships

Disputes with staff and employees

Disruption of operations and consequent loss of revenues

The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" of the annual report

Breakdown in relationships with the local shareholders in the company's Indonesian subsidiaries

Reliance on the Indonesian courts for enforcement of the agreements governing its arrangements with local partners with the uncertainties that any juridical process involves and with any failure of enforcement likely to have a material negative impact on the value of the stone and coal interests because the concessions are legally owned by the group's local partners

The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have

VIABILITY STATEMENT

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Strategic report" of the annual report which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 23 to the consolidated financial statements in the annual report includes information as to the group's policy, objectives, and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks.

The "Principal risks and uncertainties" section of the "Strategic report" in the annual report describes the material risks faced by the group and actions taken to mitigate those risks. In particular, there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for CPO and CPKO over which it has no control. Possible risks associated with the Covid-19 pandemic and emerging risks are also addressed in this section of the report.

The group has material indebtedness, in the form of bank loans and listed notes. At 31 December 2020 (after reflecting the waiver of covenant breaches referred to in "Capital structure" under the heading "Finance" in the "Strategic report" of the annual report), the equivalent of \$54.1 million rupiah denominated term bank loans were due for repayment over the period 2021 to 2023 and, in addition, a rupiah working capital loan, equivalent to \$5.0 million, was subject to annual renewal in November of each year. Of the listed notes, \$27.0 million of 7.5 per cent dollar notes 2022 (the "dollar notes") are due for repayment on 30 June 2022. In view of the material component of the group's indebtedness falling due in the period to 31 December 2023, the directors have chosen this period for their assessment of the long term viability of the group.

The group's present level of indebtedness reflects a number of challenges that have confronted the group in recent years. Over the period 2015 to 2017, group crops fell considerably short of the levels that had been expected. The reasons for this were successfully identified and addressed but, as crops recovered to better levels, the group had to contend with falling CPO prices. The resultant negative cash flow impact over a number of years had to be financed and led to the group assuming greater debt obligations from funding sources that nevertheless continued to be forthcoming.

The closing months of 2019 saw a sharp recovery in CPO prices and the group was optimistic at the outset of 2020 that the forthcoming year would see a considerable improvement in the group's financial position. Unfortunately, as the Covid-19 pandemic spread in 2020, CPO prices fell away and, notwithstanding the increase in operating cashflows (before working capital movements) to \$37.7 million (2019: \$12.2 million), the group's performance for the year fell short of initial expectations. Nevertheless, progress was made during 2020 in improving the group's financial position.

A combination of cost reductions and a recovery in CPO prices in the second half of the year meant that earnings before interest, taxation, depreciation and amortisation for the year amounted to \$36.8 million against \$18.2 million in the preceding year. The maturity date of the £30.9 million nominal of 8.75 per cent sterling notes (the "sterling notes") issued by REA Finance B.V. (and guaranteed by the company) was extended by five years to 31 August 2025 and the group's local partner in its principal Indonesian subsidiary, REA Kaltim, agreed to support an increase in the capital of REA Kaltim by converting debt to equity thus reducing indebtedness to the local partner by \$7.5 million. In addition, gross bank indebtedness was reduced by \$15.8 million, although this reduction was in part financed by increased pre-sale advances from customers against forward commitments of CPO and CPKO (all such commitments being on the basis of pricing fixed shortly ahead of delivery by reference to market prices prevailing at that time). In addressing each of these elements, the group was able to support current borrowing levels but addressing the group's capital structure for the longer term remains its objective.

Bank term loans at 31 December 2020 comprised three separate loans from PT Bank Mandiri (Persero) Tbk ("Mandiri") to group companies. As noted under "Liquidity and financing adequacy" in the "Strategic report", proposals are currently under discussion between the group and Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years. The new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, net bank funding available to the group over the three years to end 2023 would be substantially increased. This would materially improve the projected group cash flows over the period to 31 December 2023.

As noted under "Capital structure" in the "Strategic report" of the annual report, at 31 December 2020, two of the group companies in receipt of loans from Mandiri, SYB and KMS, were in breach of certain loan covenants. The breaches in question have been subsequently waived by Mandiri. The breaches principally arose as a result of insufficient revenue generation in SYB and KMS during 2020. With the better CPO prices now prevailing, SYB and KMS can reasonably expect significantly higher revenues in 2021 and should therefore be able to meet the loan covenants applicable to their existing loans from Mandiri and, in the case of SYB, the loan covenants expected to be attached to the proposed replacement Mandiri loan to SYB.

The group's agricultural operations continue to perform satisfactorily and the group is now benefiting from considerably improved prices for CPO and CPKO. Following the rise in the CPO price in the second half of 2020, the Indonesian government announced changes to the export levy scale. An effect of the changes is that, at reference prices between \$770 and \$1,000 per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. This means that the group can reasonably expect that the net prices that it receives from sale of its CPO and CPKO production to remain stable at current levels for the immediate future even if international CPO prices fall to an extent.

The award of indemnity costs on successful conclusion of the arbitration proceedings, brought against one of the coal concession companies to which the group has advanced monies, resulted in recovery in January 2021 of \$5.8 million of the group's advances. If, as is expected, the coal concession company concerned commences mining in the near future, further repayments of group advances can be expected. As detailed under "Stone and coal interests" in the "Strategic report" of the annual report, the group can also expect the stone concession company to which the group has advanced monies to commence repayment of those advances.

Whilst the group will continue to incur capital expenditure on necessary replacement of plant, replanting of the oldest plantings and limited extension planting, completion of the extension of the group's newest mill (which was delayed by the Covid-19 pandemic) will provide the group with sufficient processing capacity for the foreseeable future. Annual capital expenditure on the plantation operations going forward can therefore be expected to be nearer to the level incurred in 2020 than the much higher levels seen in earlier years. This should mean that the group's improving cash flows can be used to reduce indebtedness, the level of pre-sale advances and address the arrears of preference dividend.

Concurrently with the discussions with Mandiri, the group has been exploring alternative sources of finance, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance to strengthen the group's balance sheet. The group is confident that funding from pre-sale advances can if necessary be continued at current levels and that the group's improving financial position will support further financing if required.

Based on the foregoing and whether or not the current proposals for the replacement of the existing Mandiri loans are agreed, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2023 and to remain viable during that period.

GOING CONCERN

Factors likely to affect the group's future development, performance and position are described in the "Strategic report" of the annual report. The directors have carefully considered those factors, together with the principal risks and uncertainties faced by the group as well as emerging risks which are set out in the "Principal risks and uncertainties" section of the "Strategic report" in the annual report, and have reviewed key sensitivities which could impact on the liquidity of the group.

As at 31 December 2020, the group had cash and cash equivalents of \$11.8 million and borrowings of \$201.2 million (in both cases as set out in note 23 to the group financial statements).

As noted under "Liquidity and financing adequacy" in the "Strategic report" of the annual report, proposals are currently under discussion between the group and Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be

repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years. The new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, the proposals would mean that the bank repayments falling due over the 12 month period following the date of approval of the financial statements will be more than covered by the additional funding provided.

As noted under, and for the reason given in, the "Viability statement" above, the group does not expect the breaches of loan covenants by SYB and KMS that occurred in 2020 to recur in 2021.

Concurrently with the discussions with Mandiri, the group has been exploring alternative sources of finance, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance to strengthen the group's balance sheet. The group is confident that funding from pre-sale advances can if necessary be continued at current levels and that the group's improving financial position will support further financing if required.

As noted in the "Viability statement" above, the group's agricultural operations continue to perform satisfactorily and the group is benefiting from considerably improved prices for CPO and CPKO which seem set to continue for the immediate future, with a currently favourable balance of supply and demand. In addition, the group has received a recent repayment of an advance made to the stone and coal concession companies that are provided with loan funding by the group and can reasonably anticipate further repayments.

Having regard to the foregoing, based on the group's forecasts and projections (taking into account reasonable possible changes in trading performance and other uncertainties) and having regard to the group's cash position and available borrowings, the directors expect that, whether or not the current proposals for the replacement of the existing Mandiri loans are agreed, the group should be able to operate within its available borrowings for at least 12 months from the date of approval of the financial statements.

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

To the best of the knowledge of each of the directors, they confirm that:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the "Strategic report" section of the annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

The current directors of the company and their respective functions are set out in the "Board of directors" section of the annual report.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	\$'000	\$'000
Revenue	139,088	124,986

Net (loss) / gain arising from changes in fair value of agricultural produce inventory	(777)	5,127
Cost of sales:		
Depreciation and amortisation	(27,969)	(27,287)
Other costs	(82,215)	(94,495)
Gross profit	28,127	8,331
Distribution costs	(2,835)	(1,348)
Administrative expenses	(16,486)	(16,097)
Operating profit / (loss)	8,806	(9,114)
Investment revenues	525	595
Impairments and similar charges	(9,483)	(3,267)
Finance costs	(23,098)	(31,890)
Loss before tax	(23,250)	(43,676)
Tax	7,336	22,303
Loss for the year	(15,914)	(21,373)
Attributable to:		
Equity shareholders	(13,183)	(17,814)
Non-controlling interests	(2,731)	(3,559)
	(15,914)	(21,373)
Loss per 25p ordinary share (US cents)	(30.0)	(43.1)

The company is exempt from preparing and disclosing its profit and loss account. All operations for both years are continuing.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	\$'000	\$'000
Loss for the year	(15,914)	(21,373)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(3,504)	59
Deferred tax on exchange differences	1,769	1,589
	(1,735)	1,648
Items that will not be reclassified to profit or loss:		
Actuarial gains / (losses)	1,835	(316)
Deferred tax on actuarial (gains) / losses	(367)	79
	1,468	(237)
Total comprehensive income for the year	(16,181)	(19,962)
Attributable to:		
Equity shareholders	(13,450)	(16,403)
Non-controlling interests	(2,731)	(3,559)
	(16,181)	(19,962)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2020

	2020	2019
	\$'000	\$'000
Non-current assets		
Goodwill	12,578	12,578
Intangible assets	1,098	2,135
Property, plant and equipment	376,551	394,356
Land	39,879	38,598
Financial assets: stone and coal interests	57,548	50,329
Deferred tax assets	8,931	12,642
Non-current receivables	5,302	3,889
Total non-current assets	501,887	514,527
Current assets		
Inventories	16,069	18,565
Biological assets	2,953	2,764
Trade and other receivables	41,059	53,760
Cash and cash equivalents	11,805	9,528
Total current assets	71,886	84,617
Total assets	573,773	599,144
Current liabilities		
Trade and other payables	(51,644)	(63,452)
Bank loans	(54,148)	(19,168)
Sterling notes	-	(38,996)
Other loans and payables	(7,321)	(14,457)
Total current liabilities	(113,113)	(136,073)
Non-current liabilities		
Trade and other payables	(20,712)	-
Bank loans	(56,062)	(107,757)
Sterling notes	(42,908)	-
Dollar notes	(26,891)	(26,804)
Deferred tax liabilities	(39,581)	(51,941)
Other loans and payables	(28,690)	(23,879)
Total non-current liabilities	(214,844)	(210,381)
Total liabilities	(327,957)	(346,454)
Net assets	245,816	252,690
Equity		
Share capital	133,586	133,586
Share premium account	47,358	47,358
Translation reserve	(25,833)	(26,032)
Retained earnings	70,693	84,779
	225,804	239,691
Non-controlling interests	20,012	12,999
Total equity	245,816	252,690

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Share capital	Share premium	Translation reserve	Retained earnings	Sub total	Non-controlling interests	Total Equity
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	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2019	132,528	42,401	(42,470)	114,360	246,819	14,455	261,274
Loss for the year	-	-	-	(17,814)	(17,814)	(3,559)	(21,373)
Other comprehensive income for the year	-	-	987	(179)	808	603	1,411
Adjustment in respect of deferred tax provision release	-	-	15,451	(11,588)	3,863	-	3,863
Issue of new ordinary shares (cash)	1,058	5,079	-	-	6,137	-	6,137
Costs of issue	-	(122)	-	-	(122)	-	(122)
New equity from non-controlling interests	-	-	-	-	-	1,500	1,500
At 31 December 2019	133,586	47,358	(26,032)	84,779	239,691	12,999	252,690
Loss for the year	-	-	-	(13,183)	(13,183)	(2,731)	(15,914)
Reserve adjustment relating to warrant issue	-	-	-	1,133	1,133	-	1,133
Other comprehensive income for the year	-	-	199	(2,036)	(1,837)	(200)	(2,037)
New equity from non-controlling interests	-	-	-	-	-	9,944	9,944
At 31 December 2020	133,586	47,358	(25,833)	70,693	225,804	20,012	245,816

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	\$'000	\$'000
Net cash from operating activities	33,479	2,185
Investing activities		
Interest received	525	595
Proceeds on disposal of property, plant and equipment	1,066	7,639
Purchases of property, plant and equipment	(10,768)	(18,133)
Purchases of intangible assets	-	(20)
Expenditure on land	(3,897)	(4,552)
Investment in stone and coal interests	(7,218)	(4,319)
Net cash used in investing activities	(20,292)	(18,790)
Financing activities		
Repayment of bank borrowings	(18,734)	(14,512)
New bank borrowings drawn	5,250	4,999
New borrowings from related party	4,031	5,437
Repayment of borrowings from related party	-	(5,437)
Repayment of borrowings from non-controlling shareholder	(7,514)	-
New borrowings from non-controlling shareholder	-	1,758
New equity from non-controlling interests	9,944	1,500
Proceeds of issue of ordinary shares, less costs of issue	-	6,015
Proceeds of issue of 2022 dollar notes	-	3,000
Costs of extending repayment date of sterling notes	(459)	-
Payment of warranty obligations relating to divested subsidiary	(663)	-
Repayment of lease liabilities	(2,434)	(2,303)
Net cash (used in) / from financing activities	(10,579)	457

Cash and cash equivalents

Net increase / (decrease) in cash and cash equivalents	2,608	(16,148)
Cash and cash equivalents at beginning of year	9,528	26,279
Effect of exchange rate changes	(331)	(603)
Cash and cash equivalents at end of year	11,805	9,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accompanying financial statements and notes 1 to 16 below (together the "accompanying financial information") have been extracted without material adjustment from the financial statements of the group for the year ended 31 December 2020 (the "2020 financial statements"). The auditor has reported on those accounts; the reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2020 financial statements will be filed in the near future with the Registrar of Companies. The accompanying financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 of the company.

Whilst the 2020 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and with the Companies Act 2006, as at the date of authorisation of those accounts the accompanying financial information does not itself contain sufficient information to comply with IFRS.

The 2020 financial statements and the accompanying financial information were approved by the board of directors on 26 April 2020.

2. Revenue

	2020	2019
	\$'000	\$'000
Sales of goods	137,993	124,000
Revenue from services	1,095	986
	139,088	124,986
Investment revenue	525	595

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and stone and coal interests. In 2020 and 2019, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2020	2019
	\$'m	\$'m
Sales by geographical destination:		
Indonesia	117.3	118.1
Rest of World	21.8	6.9
	139.1	125.0
Carrying amount of net (liabilities) / assets by geographical area of asset location:		
UK and Continental Europe	(73.3)	(68.0)
Indonesia	319.1	320.7
	245.8	252.7

4. Agricultural produce inventory movement

The net (loss) / gain arising from changes in fair value of agricultural produce inventory represents the movement in the carrying value of such inventory after reflecting the movement in the fair value of the FFB input into that inventory (measured at fair value at point of harvest) less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

5. Administrative expenses

	2020	2019
	\$'000	\$'000
Loss / (profit) on disposal of property, plant and equipment	537	(707)
Indonesian operations	12,785	13,480
Head office and other corporate functions	4,781	5,928
	18,103	18,701
Amount included as additions to property, plant and equipment	(1,617)	(2,604)
	16,486	16,097

6. Impairments and similar charges

	2020	2019
	\$'000	\$'000
Provision against costs incurred in respect of land to be transferred to plasma cooperatives	6,203	-
Land compensation payments in connection with divested subsidiary	663	-
Write off of expenditure on land	2,617	5,022
Correction to non-current receivables	-	(1,755)
	9,483	3,267

The group intends to transfer some further areas of land developed by the group to plasma cooperatives. It is hoped that all costs incurred in respect of such areas can be recovered in full, but this may not be possible. Accordingly, an impairment provision has been made against the costs in question.

The land compensation payments are in respect of certain outstanding warranty obligations relating to the subsidiary divested in 2018, PT Putra Bongan Jaya.

In both the current and prior year, the write off of expenditure on land represents costs incurred by the group on a land allocation (izin lokasi) that has been relinquished. Having regard to evolving environmental considerations and prospective titling problems arising from conflicting land claims, the group concluded that renewal should not be sought following expiry of the land allocations concerned.

In 2019, an amount of \$1.7 million relating to the correction of an understatement of non-current receivables comprising loans to third parties by the company was set off against the write off of expenditure on land.

7. Finance costs

	2020	2019
	\$'000	\$'000
Interest on bank loans and overdrafts	12,591	14,664
Interest on dollar notes	2,028	1,859
Interest on sterling notes	3,498	3,462
Interest on other loans	1,095	1,539
Interest on lease liabilities	301	311
Change in value of sterling notes arising from exchange fluctuations	1,869	1,357

Change in value of loans arising from exchange fluctuations	(1,538)	7,246
Finance charge related to warrant issue	1,133	-
Other finance charges	2,380	1,488
	23,357	31,926
Amount included as additions to property, plant and equipment	(259)	(36)
	23,098	31,890

Other finance charges in 2020 include \$1.1 million being the present value of the premium payable on redemption discounted at the coupon rate.

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 1.2 per cent (2019: nil per cent); there is no directly related tax relief.

8. Tax

	2020	2019
	\$'000	\$'000
Current tax:		
UK corporation tax	-	-
Overseas withholding tax	968	1,289
Foreign tax	343	737
Total current tax	1,311	2,026
Deferred tax:		
Current year	(9,830)	(24,329)
Prior year	1,183	-
Total deferred tax	(8,647)	(24,329)
Total tax	(7,336)	(22,303)

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 20 per cent (2019: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2019: 19 per cent) and a deferred tax rate of 19 per cent (2019: 17 per cent).

The rate of corporation tax in the United Kingdom had been expected to reduce from 19 per cent to 17 per cent from 1 April 2020 however in March 2020 it was announced that the rate would continue at 19 per cent. In March 2021 it was announced that UK corporation tax rates would rise to 25 per cent from 2023.

The main rate of corporation tax in Indonesia is reducing from 25 per cent to 22 per cent in 2021 then to 20 per cent for accounting periods after 2022. In computing the deferred tax liabilities, it is assumed that as neither deferred tax assets nor liabilities will crystallise in the immediate future then calculations based on a rate of 20 per cent are appropriate.

9. Dividends

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. Whilst the group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, it is not yet in a position to provide guidance as to when it might be able to commence doing so. The directors are well aware that preference shares are bought for income and aim progressively to catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2020 even if this were permitted.

10. Loss per share

	2020	2019
	\$'000	\$'000
Loss for the purpose of calculating loss per share*	(13,183)	(17,814)

	'000	'000
Weighted average number of ordinary shares for the purpose of loss per share	43,951	41,358

* Being net loss attributable to ordinary shareholders

11. Property, plant and equipment

	Plantings	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost:					
At 1 January 2019	182,549	236,930	114,963	7,242	541,684
Additions	2,367	3,068	5,518	7,275	18,228
Reclassifications and adjustments	(7,012)	10,227	3,525	(6,858)	(118)
Disposals - property, plant and equipment	(2,575)	(4,436)	(1,799)	-	(8,810)
At 31 December 2019	175,329	245,789	122,207	7,659	550,984
Additions	1,250	2,051	2,757	4,702	10,760
Reclassifications and adjustments	-	1,450	1,781	(3,248)	(17)
Disposals - property, plant and equipment	(1,164)	(696)	(2,597)	-	(4,457)
At 31 December 2020	175,415	248,594	124,148	9,113	557,270
Accumulated depreciation:					
At 1 January 2019	36,565	37,821	57,852	-	132,238
Charge for year	9,734	6,904	10,183	-	26,821
Reclassifications and adjustments	-	414	(854)	-	(440)
Disposals - property, plant and equipment	(91)	(124)	(1,776)	-	(1,991)
At 31 December 2019	46,208	45,015	65,405	-	156,628
Charge for year	10,012	7,297	9,615	-	26,924
Reclassifications and adjustments	-	59	(38)	-	21
Disposals - property, plant and equipment	(206)	(51)	(2,597)	-	(2,854)
At 31 December 2020	56,014	52,320	72,385	-	180,719
Carrying amount:					
At 31 December 2020	119,401	196,274	51,763	9,113	376,551
At 31 December 2019	129,121	200,774	56,802	7,659	394,356

The depreciation charge for the year includes \$56,000 (2019: \$95,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$2.6 million (2019: \$3.4 million).

At the balance sheet date, property, plant and equipment of \$141.3 million (2019: \$153.5 million) had been charged as security for bank loans.

12. Sterling notes

The sterling notes comprise £30.9 million nominal of 8.75 per cent guaranteed 2025 sterling notes (2019: £30.9 million nominal) issued by the company's subsidiary, REA Finance B.V. ("REAF").

On 1 April 2020 a proposal to extend the repayment date for the sterling notes from 31 August 2020 to 31 August 2025 was implemented. In accordance with the terms of the proposal the company issued a total of 4,010,760 warrants to subscribe, for a period of five years, for ordinary shares in the capital of the company at a price of £1.26 per share to the holders of the sterling notes on the basis of 130 warrants per £1,000 nominal of sterling notes held at the close of business (London time) on 24 March 2020.

The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, REAS, and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are now repayable on 31 August 2025. A premium of 4p per £1 nominal of sterling notes will now be paid on redemption of the sterling notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of the warrants on the final subscription date (namely 15 July 2025).

The repayment obligation in respect of the sterling notes of £30.9 million (\$42.1 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs plus the present value of the premium payable on redemption discounted at the coupon rate.

13. Share capital

	2020	2019
	\$'000	\$'000
Issued and fully paid (in dollars):		
72,000,000 - 9 per cent cumulative preference shares of £1 each (2019: 72,000,000)	116,516	116,516
43,950,529 - ordinary shares of 25p each (2019: 43,950,529)	18,071	18,071
132,500 - ordinary shares of 25p each held in treasury (2019: 132,500)	(1,001)	(1,001)
	<u>133,586</u>	<u>133,586</u>

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 amount paid up on such preference shares. The preference shares shall rank for dividend in priority to the payment of any dividend to the holders of any other class of shares. In the event of the company being wound up, holders of the preference shares shall be entitled to the amount paid up on the nominal value of such shares together with any arrears and accruals of the fixed dividend thereon, irrespective of whether such dividend has been declared or earned or not. The preference shares shall rank on a winding up or other return of capital in priority to any other shares of the company for the time being in issue.

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

Issued and fully paid:	9 per cent cumulative preference shares of £1 each	Ordinary shares of 25p each
At 1 January 2019	72,000,000	40,509,529
Issued during the year	-	3,441,000
At 31 December 2019 and 2020	<u>72,000,000</u>	<u>43,950,529</u>

14. Movement in net borrowings

	2020	2019
	\$'000	\$'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents, after exchange rate effects	2,277	(16,751)
Net decrease in bank borrowings	13,484	4,049
Decrease in borrowings from non-controlling shareholder	7,514	-
Net increase in related party borrowings	(4,031)	(1,711)
	19,244	(14,413)
Issue of dollar notes	-	(3,000)
Amortisation of sterling note issue expenses and premium	(1,545)	(420)
Amortisation of dollar note issue expenses	(87)	(80)
Amortisation of bank loan expenses	(175)	-
Transfer from current assets - unamortised bank loan expenses	1,126	-
	18,563	(17,913)
Currency translation differences	(87)	(363)
Net borrowings at beginning of year	(207,827)	(189,551)
Net borrowings at end of year	(189,351)	(207,827)

15. 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.

Remuneration of key management personnel

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" of the annual report.

	2020	2019
	\$'000	\$'000
Short term benefits	1,181	1,041

Loan from related party

During the year, R.E.A. Trading Limited ("REAT"), a related party, made unsecured loans to the company on commercial terms. REAT is owned by Richard Robinow (a director of the company) and his brother who, with members of their family, also own Emba Holdings Limited, a substantial shareholder in the company. Total loans outstanding at 31 December 2020 were \$4.0 million (2019: nil). The maximum amount loaned was \$6.1 million (2019: \$5.4 million, all of which had been repaid by 31 December 2019). Total interest paid during the year was \$165,000 (2019: \$83,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4(10).

16. Events after the reporting period

There have been no material post balance sheet events that would require disclosure in, or adjustment to, these financial statements.

Current liabilities shown by the consolidated balance at 31 December 2020 amounted to \$113.1 million, reflecting the inclusion of bank loans totalling \$30.5 million from the group's Indonesian bankers, Mandiri, to SYB and KMS that would have been classified as non-current liabilities were it not for certain breaches by those companies of loan covenants applicable at the balance sheet date. Mandiri has subsequently waived the breaches in question. If the waivers had been received before the balance sheet date, such loans would have been classified as non-current liabilities.

References to group operating companies in Indonesia are as listed under the map on page 5 of the annual report.

The terms "FFB", "CPO" and "CPKO" mean, respectively, "fresh fruit bunches", "crude palm oil" and "crude palm kernel oil".

References to "dollars" and "\$" are to the lawful currency of the United States of America.

References to "rupiah" are to the lawful currency of Indonesia.

References to "sterling" or "pounds sterling" are to the lawful currency of the United Kingdom.

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