R.E.A. HOLDINGS PLC - ANNUAL REPORT
2007

Secretary and registered office
R.E.A. Services Limited
First Floor
32-36 Great Portland Street
London W1W 8QX

Website
www.rea.co.uk

Registered number
00671099 (England and Wales)

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Officers and professional advisers

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

Secretary and registered office
R.E.A. Services Limited
First Floor
32-36 Great Portland Street
London W1W 8QX

Financial advisers
Deloitte & Touche LLP
Athene Place
66 Shoe Lane
London EC4A 3BQ

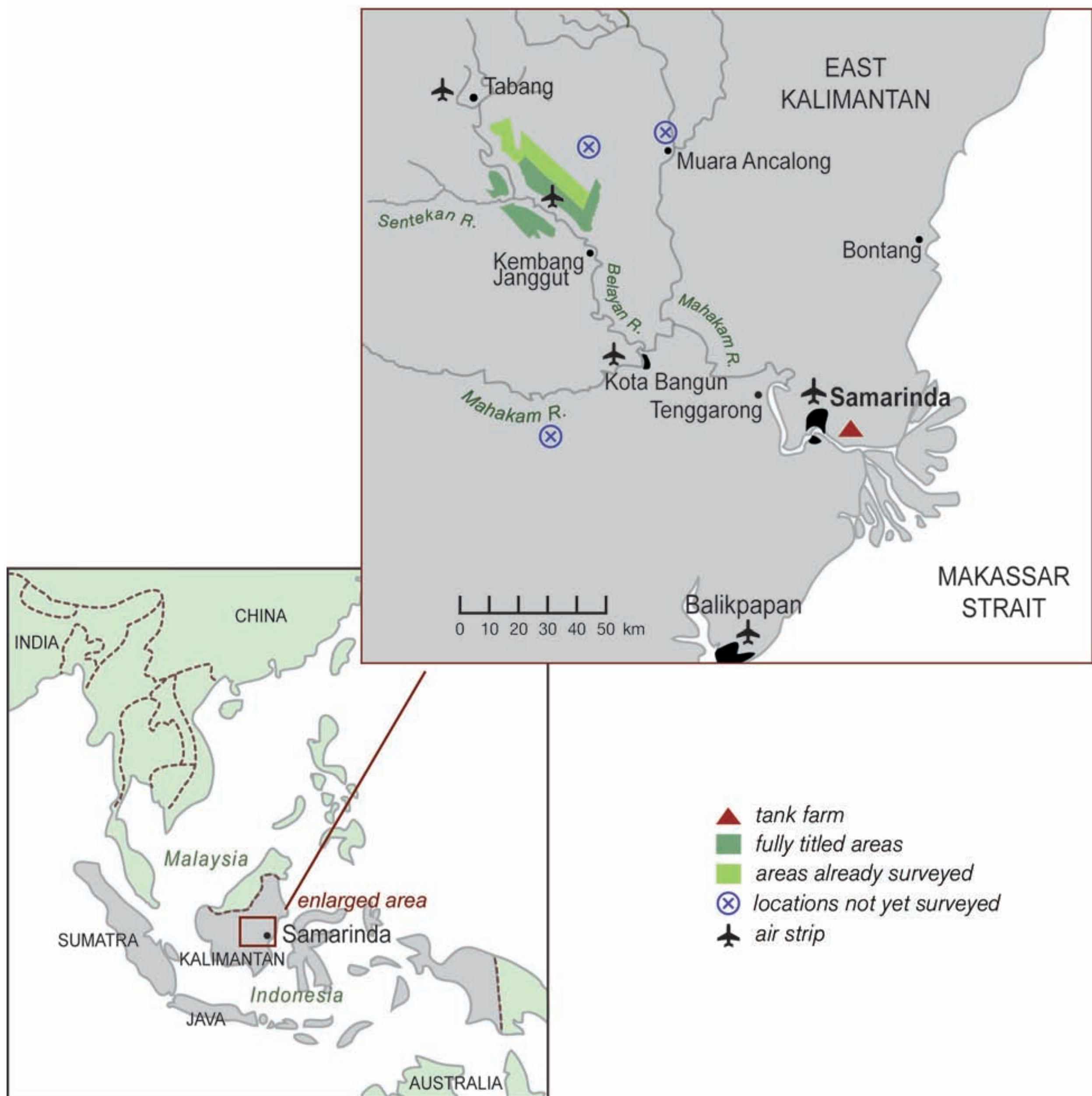
Stockbrokers
Mirabaud Securities Limited
21 St James's Square
London SW1Y 4JP

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Registrars and transfer office
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Maps showing allocated areas



Summary of results

for the year ended 31 December 2007

	2007 $'000	2006 $'000	Change %
Revenue	57,600	33,095	+ 74
Earnings before interest, tax, depreciation, amortisation and biological gain*	43,346	13,733	+ 215
Profit before tax	47,010	19,762	+ 137
Profit after tax	31,997	13,864	+ 130
Profit attributable to ordinary shareholders	29,453	11,546	+ 155

* see note 5 to consolidated financial statements

Earnings per ordinary share (diluted) in US cents	89.6	37.8	+ 137

Closing exchange rates	2007	2006	2005	2004	2003
Indonesian rupiah to US dollar	9,419	9,020	9,830	9,290	8,465
US dollar to pound sterling	1.99	1.96	1.72	1.92	1.79

Key statistics

for the year ended 31 December 2007

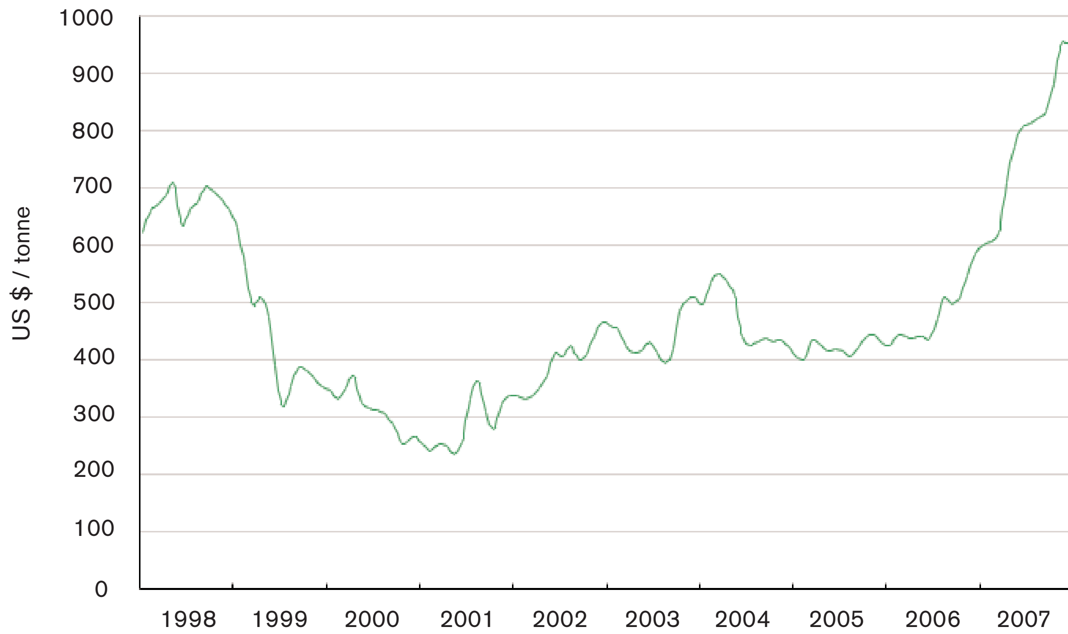
	2007	2006	2005	2004	2003
Allocated area - Hectares					
Mature oil palm	13,080	13,080	13,085	13,142	13,234
Immature oil palm (developed in prior years)	11,814	5,250	3,000	–	–
Immature oil palm (developed in current year)	1,514	6,564	2,250	3,000	–
Under preparation for oil palm development	11,500+	6,500	6,000	4,500	3,000
	37,908	31,394	24,335	20,642	16,234
Reserve area º	84,018	34,022	41,801	24,793	28,094
Total	121,926	65,416	66,136	45,435	44,328

+ includes 5,000 hectares outstanding from 2007 planting program.

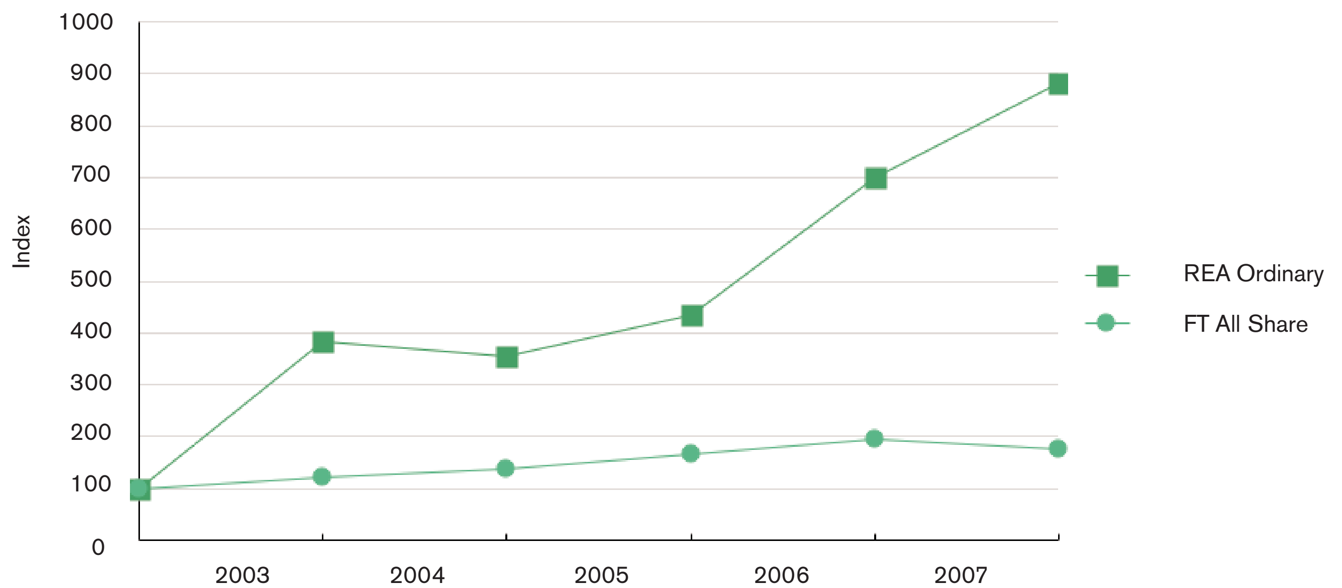
º includes conservation areas, roads and other infrastructure, areas available for planting and areas under negotiation.

	2007	2006	2005	2004	2003
Production - Tonnes					
Oil palm fresh fruit bunch crop	393,217	334,076	313,355	293,883	222,713
Crude palm oil	93,229	77,597	73,262	71,473	55,426
Palm kernel	15,660	12,698	12,647	12,169	9,189
Total palm products	108,889	90,295	85,909	83,642	64,615
Oil extraction rate	23.7%	23.2%	23.4%	24.3%	24.9%
Kernel extraction rate	4.0%	3.8%	4.0%	4.1%	4.1%
Yields - Tonnes per mature hectare					
Fresh fruit bunches	29.6	25.5	23.8	22.4	16.8
Crude palm oil	7.1	5.9	5.6	5.4	4.2
Palm kernel	1.2	1.0	1.0	0.9	0.7
Total palm products	8.3	6.9	6.6	6.3	4.9

Crude palm oil monthly average price



Share performance graph



Chairman's statement

Presentation of annual report

Following a trend set by several other European plantation companies, the group has decided to adopt the US dollar as its presentational currency. The directors believe that presentation of the group's results in US dollars will reduce distortions caused by exchange movements and thereby make it easier for shareholders to follow the evolution of the group's financial affairs.

Accordingly, while the group continues to report in accordance with International Financial Reporting Standards, the accompanying consolidated financial statements for the year ended 31 December 2007 are presented in US dollars and the comparative figures, which were originally presented in sterling, have been restated in US dollars. The company continues to prepare its individual financial statements in sterling in accordance with UK Generally Accepted Accounting Practice and, as was the case in the annual report for 2006, those statements are presented separately from the consolidated financial statements.

Results

Profit before tax for 2007, as shown in the accompanying consolidated income statement, amounted to $47.0 million representing a 137 per cent increase over the profit before tax of the preceding year (as restated in US dollars) of $19.8 million. The increase reflected a combination of increased production and better selling prices, more than offsetting cost increases resulting from inflationary pressures in Indonesia.

The net gain from changes in the fair value of biological assets at $8.0 million was much in line with the gain reported in 2006 of $8.7 million. In both years, the gains principally reflected projected increases in future production arising from the continuing extension planting programme and the increasing maturity of existing planted areas.

At the after tax level, profit for the year at $32.0 million was 130 per cent ahead of the $13.9 million achieved in 2006 while profit attributable to ordinary shareholders was 155 per cent ahead of the preceding year. Fully diluted earnings per share amounted to US 89.6 cents (2006 - US 37.8 cents).

Accounting reference date

The company's current accounting reference date is 31 December. This is not ideal in terms of internal staff availability for the preparation of year end reports. Moreover, the end of the calendar year is a popular reporting date and the group finds itself competing with other groups (many of them much larger than the group) to obtain from its auditors allocations of audit staff for the time needed to audit the financial statements of the company and its subsidiaries.

The directors are therefore contemplating a change in the company's accounting reference date to 28 February. Such a change would require the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") issued by REA Finance B.V. ("REA Finance"), a wholly owned subsidiary of the company. If the directors decide to proceed with the change and the necessary noteholder consent can be obtained during the course of 2008, the current reporting period of the company would be extended to 28 February 2009.

Operations

The crop out-turn for 2007 amounted to 393,217 tonnes of oil palm fresh fruit bunches ("FFB"), 3.5 per cent ahead of the budgeted crop of 380,000 tonnes and an increase of 17.7 per cent on the FFB crop for 2006 of 334,076

tonnes. Climatic conditions during 2007 were satisfactory with good rainfall of 4,413 mm (2006 – 2,967 mm) generally well distributed through the year.

The crude palm oil ("CPO") and palm kernel extraction rates for 2007 were, respectively, 23.7 per cent and 4.0 per cent as compared with the rates of 23.2 per cent and 3.8 per cent achieved in 2006. 4.0 per cent remains the group's target rate for kernel extraction but recent adjustments to kernel processing machinery in the group's newer oil mill may permit upward revision of this target rate in future years.

The palm kernel crushing plant incorporated in the newer oil mill was brought into full scale production at the start of 2007 and now processes all kernel output from both of the group's oil mills. The plant is economic to run because it operates on power generated from the combustion of waste products from the CPO and palm kernel extraction processes and such power is surplus to the power requirement for those processes. Moreover, by further processing kernels and extracting the crude palm kernel oil ("CPKO") that they contain, the plant relieves the group of the material logistical difficulties and cost associated with the transport and sale of kernels. The CPKO extraction rate for 2007 was 41.4 per cent.

Land allocations and development

Efforts to ensure the availability to the group of land for expansion during 2007 and the early months of 2008 have resulted in the group acquiring two further Indonesian companies, PT Cipta Davia Mandiri ("CDM") and PT Kutai Mitra Sejahtera ("KMS") and conditionally agreeing to acquire (subject to confirmation of necessary land development permits) a third Indonesian company, PT Putra Bongan Jaya ("PBJ"). Each of these three Indonesian companies is, or will be, owned as to 95 per cent by group companies and 5 per cent by East Kalimantan investors. Following these transactions and assuming completion of the conditional acquisition of PBJ, the group will hold land allocations totalling slightly in excess of 120,000 hectares but the various allocations are at different stages of titling and a large proportion of the land allocated is not yet available to the group for development.

The extent of the new development achieved by the group in 2007 was a significant disappointment with an increase during the year of only some 1,500 hectares in the total area planted or in course of development. This increase fell very materially short of the target of 6,500 hectares set at the beginning of the year. In setting that target, the directors did recognise that its achievement would depend upon the titling of land allocations held by the group proceeding as planned so that land would become available for development in time, and to an extent sufficient, to meet the requirements of the development programme. Titling problems in relation to untitled land allocations held meant that this did not happen and the shortfall was the result.

Looking to 2008 and beyond, the directors continue to regard the availability of land for development as the key constraint on expansion. The serious and unexpected delays suffered in 2007 have made it clear that any predictions as to land availability may prove inaccurate. Nevertheless, the directors do believe that significant areas within the 37,000 hectares of land allocations held by CDM and KMS will be available for development by the group during 2008 and that a further area held by PBJ will also become available during the year. This will permit the group to split its development programme between three separate areas and, if setbacks occur in one area, hopefully to compensate for these by accelerating development in the other areas. Although the delays experienced in 2007 have continued into the early months of 2008, the recent acquisitions of CDM and KMS should permit large scale development to be resumed upon completion of land compensation

settlements with local villages. These are currently under negotiation.

Subject to the caveats just mentioned, the targeted development programme for 2008 and 2009 will be 6,500 hectares per annum and, in addition, the group will aim to catch up the uncompleted balance of the 2007 programme of some 5,000 hectares. Whilst development of new areas requires a one year lead time in which to procure seed and to develop seedlings for planting out, the group's nurseries are already well stocked and the availability of planting material should be more than sufficient to meet the targeted programme. If achieved, this programme would result by the end of 2009 in a total area under oil palm or in course of development of slightly under 45,000 hectares.

Finance

2007 saw further consolidation of the group's financial position. In January 2007, the balance of £7,000,000 nominal of the proposed total issue of £22,000,000 nominal of sterling notes was issued for cash at a subscription price of 99.6574 per cent of par by REA Finance. This was followed in April and September 2007 by issues of, respectively, 1,500,000 new ordinary shares and 1,064,581 new preference shares for cash to raise some £7.6 million, net of expenses. A further 1,085,795 new preference shares were issued in October 2007 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" below.

The combined effect of the foregoing transactions was to increase the group's liquidity and to reduce its dependence on short term bank borrowings As a result, group indebtedness at 31 December 2007 amounted to $86.2 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $15.4 million, £22 million nominal of sterling notes (carrying value: $40.7 million), $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.4 million) and other short term indebtedness (including finance leases) of $0.7 million. Against this indebtedness, at 31 December 2007 the group held cash and cash equivalents of $34.2 million.

The group has entered into a long term sterling US dollar debt swap to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but, in the case of interest, only as respects interest payments falling due up to and including 31 December 2015).

On the basis of present CPO prices, the directors expect that operating cash flows for the remainder of 2008, together with the group's existing cash resources, will be sufficient to fund both the planned development programme for the year and near term debt repayments. Looking beyond 2008 and allowing for the fact that CPO prices may not be sustained at present levels, the group is likely to require some further funding if, as the directors hope will be the case, high levels of extension planting are achieved. The directors intend to meet this further funding requirement with additional borrowings which they will seek to raise from development and other banks and, if market conditions permit, from further issues of listed debt securities. The directors are confident that the group's equity base is now sufficient comfortably to support the additional debt envisaged.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2007 were duly paid. Dividends totalling 2p per ordinary share have been paid in respect of 2007 (2006 – 1p per ordinary share). These comprised a first interim dividend of 1p per ordinary share paid on 5 October 2007 and a second interim dividend in

lieu of final of 1p per ordinary share paid on 25 January 2008. In addition, the company made a capitalisation issue to ordinary shareholders of 1,085,795 new preference shares on the basis of one new preference share for every 30 ordinary shares held on 1 October 2007.

The group's plans for continued extension planting of oil palms will require substantial investment by the group and the need to fund this investment will inevitably constrain the rate at which the directors feel that they can prudently declare, or recommend the payment of, future ordinary dividends. The directors do appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. With the prospect of increasing crops for several years to come, the directors believe that, notwithstanding the constraints of the development programme, the group should be able to support progressive increases in ordinary dividends from the modest levels established in respect of 2006 and 2007 but they believe that the rate of progression should be steady rather than dramatic. The directors intend that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years.

If the group's results would appear to justify some additional return to ordinary shareholders beyond the level of ordinary dividends that the directors believe that the company can prudently afford having regard to the need to conserve cash resources, the directors may consider a further capitalisation issue to ordinary shareholders of new preference shares.

Staff

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

Future direction

In seeking to meet the challenges brought by the group's continuing growth, the directors have seen as their highest priority the consolidation of the human resource component of the group's Indonesian operations. To this end, steps have been taken to provide greater structure to the management of the operations by adding senior staff (both by internal promotion and external recruitment) and by enhancing training programmes. The group has also sought to entrench its local capacities by building on existing relationships with local stakeholders, by procuring minority local investors in its operations and by appointing persons of standing as local advisers to, and directors of, Indonesian group companies. Whilst this process is not yet complete, the directors believe that the measures already taken have significantly improved the resilience of existing management and the availability to the group of local independent non-executive advice. Moreover, the group now has an expanding cadre of younger staff who, suitably nurtured, should in the future be capable of running the Indonesian operations.

The directors have also started to address the question of how best to develop the structure of the group for the future. The present structure, in which the group is headed by a UK listed company, has served the group well in recent years in permitting the group to raise the capital that it has needed but integral to this structure is a requirement to maintain a London base. That represents a significant overhead. If, as the directors hope will be the case, the group can in future rely, to a greater extent than hitherto, on internally generated equity, and if the markets for listed securities in Indonesian and other Asian financial markets continue to mature, it might be that a reconstitution of the group as an entirely Asian based entity would better serve investors in the group than continuation of the present group structure. Having considered the matter, the

directors have concluded that they should defer any far reaching decisions on group structure until it becomes clearer whether the group's aspirations on further expansion can be converted to realities.

The directors have previously stated, and it remains the case, that they do not regard diversification as a strategic imperative and that a decision to diversify would be taken only if the prospective returns from capital invested in diversification are comparable with those achievable from investment of equivalent capital in continued expansion of the oil palm operations in the existing operational areas. In recent months, the directors have been tentatively considering the possibility of a modest diversification into coal mining. It is well established that East Kalimantan has vast coal deposits, many of which comprise coal of a high quality. Certain of the local investors in Indonesian subsidiaries of the company have interests in, or access to, coal concessions and have suggested that the group might join them in exploiting such concessions. The directors have concluded that this suggestion should be explored although there is no current certainty that the apparent opportunity offered can provide an economically viable project or that, if it does, the group would decide to take on such a project.

As they have previously indicated, the directors do not agree with the view of some institutional investors that long service automatically negates the independence of a non-executive director and that therefore the present constitution of various board committees should be considered non-compliant with the principles of the Combined Code on Corporate Governance. However, the directors do accept that it is important to retain shareholder confidence in the board and, in particular, in the audit committee's contribution to the integrity of the audit process. With the progress that has been made in developing resilience in the group's management in Indonesia, the directors have concluded that appointing one further non-executive director would not now pose a material distraction from the continuing efforts to address other important strategic issues.

Accordingly, the directors have invited the nomination committee to make recommendations for appointment of an additional non-executive director with the expectation that such director would have a relevant financial background. The directors hope that an appointment can be completed within a few months. This will facilitate further revisions to the composition of board committees with a view to putting beyond question the compliance of such committees with the principles of the Combined Code.

In the view of the directors, the business environment in Indonesia is fraught with risks and it is essential to the management of that risk to build and maintain relationships based on mutual understanding. The directors will expect any new director to support this view.

Prospects

The FFB crop for 2008 has been budgeted at 421,000 tonnes with the expected increase over 2007 reflecting a budgetary assumption of average rainfall (both as to quantum and distribution) and increased cropping from the 3,150 hectares of oil palms classified as mature from the start of 2008. Crops to end March 2008 were 9,000 tonnes above budget but, as the monthly phasing of each year's crop varies from year to year, this should not be taken as indicating a likelihood that the FFB crop for 2008 as a whole will be above budget.

During 2007, the CPO price, spot CIF Rotterdam, rose progressively from an opening level of some $600 per tonne to a closing level of $950 per tonne. Further strong price rises were recorded going into 2008 and CPO has, during 2008, traded at levels in excess of

$1,300 per tonne although recent weeks have seen prices fall back from the highest levels. Reports suggest that the peak prices of vegetable oils were accompanied by heavy speculative buying as well as increased commercial activity and that the recent fall from peak levels reflects closing of speculative positions. Certainly, demand for all vegetable oils appears to remain strong at a time when stocks are at historically very low levels and competition for hectarage from corn and grain crops is limiting the ability of the annual oilseeds to increase production and reduce the demand pressure on world vegetable oil stocks.

The directors retain their previously expressed view that the prices of all commodities are inherently cyclical and that it would be foolish to assume that the present high price levels for CPO will continue indefinitely. Ultimately, they believe that high prices for vegetable oils will lead to greater production not only of CPO but also of other competing crops and that that, in turn, will result in lower prices. However, they acknowledge that the increasing interest in bio-fuels represents a new factor in vegetable oil markets. With the continuing growth in world population, economic growth in China, India and other parts of the developing world and the prospect of declining availability of fossil fuels (upon which it must be remembered that intensive farming methods are critically dependent), it may be that the average level of vegetable oil prices over future price cycles will be higher than in the past.

During the six months to June 2008, the group will deliver 12,000 tonnes of CPO under forward sale contracts at the equivalent of a CIF Rotterdam price of $620 per tonne. Thereafter the group has forward sales in respect of 2,000 tonnes per month for the six month period to December 2008 and the twelve month period to December 2009 at prices equivalent to CIF Rotterdam prices of respectively $870 and $860 per tonne.

Inflationary pressures in Indonesia continue to have an adverse effect on the group's cost base and this is being exacerbated by the need to provide loyalty incentives to the group's employees in the face of competition for experienced estate managers and workers from other plantation groups and new entrants to the Indonesian plantation industry. Against this, the group now has a substantial pipeline of recently developed areas and can look forward to several years of increasing crops. These should serve to moderate any contraction of margins that the group might otherwise suffer. Moreover, successful implementation of the planned extension planting programme should add materially to the group's longer term revenue generating capacity. The directors therefore remain optimistic about the group's future. If CPO prices continue at or near current levels, the immediate outlook speaks for itself.

RICHARD M ROBINOW
Chairman
24 April 2008

Review of the group

Introduction

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

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

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

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

Overview

Nature of business and resources

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

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

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

Objectives

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

operations in a responsible and sustainable manner such that these will enhance the local environment. Realisation of this objective is dependent upon the group's ability to generate the increasing operating profits that will be needed to finance such realisation.

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

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

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

Diversification

The group recognises that it is dependent upon operations in a single locality producing a single product. This permits significant economies of scale but brings with it risks. The directors have in the past considered, and continue to look at possibilities for, diversification into another crop or area of activity that complements, and can be developed within reasonable proximity of, the existing oil palm operations. The directors have previously stated, and it remains the case, that they do not regard such diversification as a strategic imperative and that a decision to diversify would be taken only if the prospective returns from capital invested in diversification were to be comparable with those achievable from investment of equivalent capital in continued expansion of the oil palm operations in the existing operational areas.

One possible area of diversification that the directors have been tentatively considering in recent months is that of coal mining. It is well established that East Kalimantan has vast coal deposits, many of which comprise coal of a high quality. Certain of the local investors in Indonesian subsidiaries of the company have interests in, or access to, coal concessions and have suggested that the group might join them in exploiting such concessions. The directors have concluded that this suggestion should be explored although there is no current certainty that the apparent opportunity offered can provide an economically viable project or that, if it does, the group would decide to take on such a project.

Future direction and succession

Recent years have seen a significant transformation in the group. An external indication of this is that at 31 December 2000 the ordinary share capital of the company was capitalised at £4.6 million and that, by 31 December 2007, this figure had grown to £178.1 million. In part, this change reflects an increase in the number of ordinary shares that the company has in issue and the fortuitous benefit to the group of the rise in the world market price of CPO that occurred over the period. Nevertheless, there has also been a major expansion in the scale of the group's operations and, because of the capital constraints to which the group was formerly subject (exacerbated by the litigation that dogged the group from late 2001 until early 2006 when the litigation was settled), much of the expansion occurred in the latter part of the 2001 to 2007 period when it became possible

to fund it. The transformation of the group has therefore been extremely rapid.

Whilst the directors have been pleased with the group's progress, they have also been concerned to meet the challenges that have accompanied it. These include the challenges of augmenting management capacity to handle the requirements of the expanding operations, of providing management succession and of structuring the group for the future in a way that will best facilitate continued expansion.

All of the operations of the group are based in Indonesia and the directors have seen consolidation of the human resource component of the Indonesian operations as the highest priority. To this end, steps have been taken to provide greater structure to the management of the operations by adding senior staff (both by internal promotion and external recruitment) and by enhancing training programmes. The group has also sought to entrench its local capacities by building on existing relationships with local stakeholders, by procuring minority local investors in its operations and by appointing persons of standing as local advisers to, and directors of, Indonesian group companies. Whilst the process is not yet complete, the directors believe that the measures already taken have significantly improved the resilience of existing management and the availability to the group of local independent non-executive advice. Moreover, the group now has an expanding cadre of younger staff who, suitably nurtured, should in the future be capable of running the Indonesian operations.

More difficult is the question of how best to develop the structure of the group for the future. As noted above, the group sees itself as marrying developed world capital and Indonesian opportunity and central to this self perception has always been the existence of the company as a UK listed company providing a conduit for capital. This has served the group well in recent years in permitting the group to raise the capital that it has needed. However, integral to the present structure is the requirement to maintain a London base and that base represents a significant overhead. If, as the directors hope will be the case, the group can in future rely, to a greater extent than hitherto, on internally generated equity, and if the markets for listed securities in Indonesian and other Asian financial markets continue to mature, it might be that a reconstitution of the group as an entirely Asian based entity would better serve investors in the group than continuation of the present group structure.

As explained under "Operations" below, the group has made significant progress in recent months in adding to its land bank and the directors hope that this will permit further rapid growth in the group's planted area. The directors have concluded that they should defer any far reaching decisions on group structure until it becomes clear whether this hope can be converted into a reality. In the meanwhile, they intend simply to maintain the status quo of the group's London base. Both the managing director and the chairman have indicated that they would wish to remain in their present roles for several more years and the directors therefore feel that the issue of London succession can be deferred until it becomes clearer whether this is needed.

Evaluation of performance

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

The directors do, however, rely on regular reporting of certain operational progress items that are comparable

from one year to the next and may be regarded as key indicators of operating performance. These indicators for any given period comprise:

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

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

Quantifications of the above three indicators for 2007 and comparable quantifications for 2006 (in both cases as sourced from the group's internal management reports) are provided under “Land development” and “Crops and extraction rates” in “Operations” below together with targets for 2008. Qualitative comment on the group's social objectives is also provided under “Employment and social obligations” in “Operations” below and under “Sustainability” below.

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

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

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

Percentages for the above two indicators for 2007 and comparable figures for 2006 (derived from figures extracted from the audited consolidated financial statements of the company) are provided under “Group results” and “Financing policies” in “Finances” below, together with target percentages.

Operations

Group structure

All of the group's operations are located in East Kalimantan and have been established pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to support the group in acquiring, for its own account and in co-operation with local interests, substantial areas of land in East Kalimantan for planting with oil palms. The oldest planted areas, which represent the core of the group’s operations, are owned through PT REA Kaltim Plantations (“REA Kaltim”) in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, in 2005 and 2006 two new companies, PT Sasana Yudha Bhakti (“SYB”) and PT Kartanegara Kumala Sakti (“KKS”), were established with the object of securing additional land on which to

continue the development programme with, in each case, 95 per cent ownership by the group and 5 per cent by East Kalimantan investors.

Further efforts to ensure the availability of land for expansion during 2007 and the early months of 2008 have resulted in the group acquiring two further Indonesian companies, PT Cipta Davia Mandiri ("CDM") and PT Kutai Mitra Sejahtera ("KMS") and conditionally agreeing to acquire (subject to confirmation of necessary land development permits) a third Indonesian company, PT Putra Bongan Jaya ("PBJ"). Each of these three further Indonesian companies is, or will be, owned as to 95 per cent by group companies and 5 per cent by East Kalimantan investors.

Land areas

Although the 1991 understanding established a basis for the provision of land for development by or in cooperation with the group, all applications to develop previously undeveloped land areas have to be agreed by the Indonesian Ministry of Forestry and to go through a titling process. This process leads eventually to the issue of a registered land title certificate (an hak guna usaha or hgu certificate) but only after insertion of boundary markers, as part of a cadastral survey, and completion of other required legal procedures. In the group's experience, the process, which was never straightforward, has become more complicated in recent years. This has followed the devolution of significant authority in relation to land matters from the Indonesian central government to Indonesian provincial and district authorities which has resulted in an increase in the number of official bodies involved in the titling process.

Following the recent acquisitions of CDM and KMS and assuming completion of the conditional acquisition of PBJ, the group will hold land allocations totalling slightly in excess of 120,000 hectares but the various allocations are at different stages of titling and a large proportion of the land allocated is not yet available to the group for development.

To-date, full hgu land title certificates have been issued in respect of the entire 30,106 hectares allocated to REA Kaltim and 5,110 hectares of the land areas allocated to SYB. The balance of the land allocated to SYB amounts to some 10,000 hectares and it had been expected by the directors that this land would be released to the group under three separate titles during 2007. After a major effort, the group was successful, in the closing months of 2007, in obtaining the key land development permit in respect of the expected first title area of 6,000 hectares. Under normal circumstances, issue of full hgu title to the area in question could have been expected to follow automatically after issue of this key permit. Unfortunately, in this instance, a setback occurred with the discovery by the group that an allocation over the same area had recently been issued for mineral exploration. Issue of the full hgu will therefore be further delayed pending resolution of the resultant conflict of land claims.

The position in respect of the land area of some 20,000 hectares allocated to KKS is also unsatisfactory with the completion of the titling process continuing to await the issue of a decree by the Indonesian Ministry of Forestry that will allow implementation of a new provincial development plan that has been drawn up and approved by the provincial government of East Kalimantan. Issue of this decree, which is being negotiated between the Ministry of Forestry and the provincial government of East Kalimantan, has been reported to be imminent for some time but remains pending.

Whilst the directors remain hopeful that the outstanding problems affecting the completion of titling of the untitled SYB area and the KKS area will ultimately be resolved, the timing of such resolution is uncertain and significant further delay now appears possible. With no further land

available for immediate development within REA Kaltim, SYB or KKS, the directors decided during 2007 that the group should take urgent steps to acquire additional land areas in respect of which land development permits had already been issued. The result has been the acquisitions of CDM, KMS and PBJ referred to above, bringing with them land allocations of, respectively, 20,000 hectares, 17,000 hectares and 20,000 hectares with development permits covering significant land areas within these allocations (subject as respects PBJ to satisfaction of the conditions for acquisition of that company).

The core operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The SYB and KKS areas are contiguous with the REA Kaltim areas so that the three areas together form a single site. All of these areas fall within the Kutai Kartanegara district of East Kalimantan. The prospective PBJ area lies some 70 kilometres to the south of the REA Kaltim areas in the West Kutai district of East Kalimantan while the CDM and KMS areas are located in close proximity of each other in the East Kutai district of East Kalimantan less than 30 kilometres to the north west of the REA Kaltim areas.

At present, access to the REA Kaltim, SYB, KKS, CDM and KMS areas can be obtained only by river and by air but the completion in 2005 of a road bridge over the Mahakam should eventually permit road access as well. The PBJ area is already accessible by road. The CDM and KMS areas can be accessed from the REA Kaltim area by way of abandoned logging roads.

The group continues to look for further areas suitable for planting with oil palms within the general vicinity of its existing land allocations. The directors are optimistic that it will be possible to augment further the group's land bank although it is clear that interest in oil palm development in East Kalimantan has increased and that competition for land suitable for development is intensifying.

Land development

Areas planted and in course of development as at 31 December 2007 amounted in total to 26,408 hectares. Of this total, mature plantings comprised 13,080 hectares, all of which lie within the REA Kaltim areas and derive from plantings initiated between 1994 and 1997.

Following the economic and subsequent political destabilisation of Indonesia that occurred during 1997 and early 1998, and the negative effect of that destabilisation on the general availability of finance for development, REA Kaltim suspended all new development and, from then onwards for several years, concentrated its available resources on carrying to maturity the areas that had previously been planted or prepared for planting. Extension planting was resumed in 2004 and the 3,165 hectares planted in that year reached maturity at the start of 2008.

The extent of the new development achieved in 2007 was a significant disappointment with an increase during the year of only some 1,500 hectares in the total area planted or in course of development. This increase fell very materially short of the target of 6,500 hectares set at the beginning of the year. In setting that target, the directors did recognise that its achievement would depend upon the titling of land allocations held by the group proceeding as planned so that land would become available for development in time, and to an extent sufficient, to meet the requirements of the development programme. Unfortunately, the titling problems in relation to the untitled land allocation held by SYB and KKS, as referred to under "Land areas" above, meant that this did not happen. The shortfall was the result.

Looking to 2008 and beyond, the directors continue to regard the availability of land for development as needed

as the key constraint on expansion. The serious and unexpected delays suffered in 2007 have made it clear that any predictions as to land availability may prove inaccurate. Nevertheless, the directors do believe that significant areas within the 37,000 hectares of land allocations held by CDM and KMS will be available for development by the group during 2008 and that a further area held by PBJ will also become available during the year. This will permit the group to split its development programme between three separate areas and, if setbacks occur in one area, hopefully to compensate for these by accelerating development in the other areas. Although the delays experienced in 2007 have continued into 2008, the recent acquisitions of CDM and KMS should permit large scale development to be resumed upon completion of land compensation settlements with local villages. These are currently under negotiation.

Subject to the caveats just mentioned, the targeted development programme for 2008 and 2009 will be 6,500 hectares per annum and in addition the group will aim to catch up the uncompleted balance of the 2007 programme of some 5,000 hectares. Whilst development of new areas requires a one year lead time in which to procure seed and to develop seedlings for planting out, the group's nurseries are already well stocked and the availability of planting material should be more than sufficient to meet the targeted programme. If achieved, this programme would result by the end of 2009 in a total area under oil palm or in course of development of slightly under 45,000 hectares.

Inflation in Indonesia is impacting development costs but extension planting in areas adjacent to the existing developed areas still offers the prospect of attractive returns. Accordingly, it is the directors' intention that, beyond 2009, the group should continue its expansion and should seek to plant with oil palms all suitable undeveloped land available to the group (other than areas set aside by the group for conservation) as rapidly as financial and logistical constraints permit. Such expansion will, however, involve a series of discrete annual decisions as to the area to be planted in each forthcoming year and the rate of planting may be accelerated or scaled back in the light of prevailing circumstances.

Processing

The group now operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The first mill began operating in 1998 with an initial capacity of 30 tonnes of FFB per hour. This has since been expanded to a present capacity of 80 tonnes per hour. The second mill was brought into production in 2006 with an initial capacity of 40 tonnes per hour. It is planned to expand this to 60 tonnes per hour during 2008 and further to 80 tonnes per hour in 2009. The additional capacity provided by such expansion should be sufficient to process the expected increases in FFB crops pending construction of the group's third oil mill which is programmed to commence in 2010.

The group's second oil mill incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels can be further processed to extract the crude palm kernel oil ("CPKO") that the palm kernels contain. The kernel crushing plant was brought into full scale production at the start of 2007 and now processes all kernel output from both of the group's oil mills. The kernel crushing plant is economic to run because it operates on power generated by the second oil mill from the combustion of waste products from the CPO and palm kernel extraction processes and such power is surplus to the power requirement for those processes. Moreover, processing kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels.

The group operates its own fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with

tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The fleet comprises one barge of 3,000 tonnes, which the group time charters, and a number of smaller barges, each of 1,500 tonnes or less, which are owned by the group. The smaller barges are used for transporting palm products from the upriver operations to the transhipment terminal for collection from that terminal by buyers. The 3,000 tonne barge can be used for sea voyages to Malaysia and within Indonesia. This permits the group to deliver CPO and CPKO to customers' nominated destinations in Malaysia and Indonesia. The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers.

A trial made in 2005 established that it is both feasible and economic to use the barge fleet to transfer CPO from the Samarinda transhipment terminal to ships anchored offshore outside the port of Samarinda. This provides access to vessels of much greater tonnage than the vessels that can be loaded within the port of Samarinda (which are effectively limited to 6,000 tonnes) and permits the group to ship palm products to Europe when differentials between European and South East Asian prices for CPO and CPKO make it worthwhile to do so (although this has not been the case in the recent past).

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and palm product outputs at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. To reduce the extra cost that this involves, in 2003 the group acquired a downstream riverside site on which to establish a permanent loading point for use during dry periods. The necessary loading facilities will be developed following completion of a government road that will provide access to the site. Recent progress on the government road has been slow.

Crops and extraction rates

FFB crops for the years from 2003 to 2007 are shown in the "Key statistics" section of this annual report. The crop out-turn for 2007 amounted to 393,217 tonnes, 3.5 per cent ahead of the budgeted crop of 380,000 tonnes and an increase of 17.7 per cent on the FFB crop for 2006 of 334,076 tonnes. Climatic conditions during 2007 were satisfactory with good rainfall of 4,413 mm (2006 – 2,967 mm) generally well distributed through the year.

There is a considerable volume of data available on the FFB yields that are achieved from modern hybrid material planted on estates with soil and climatic conditions similar to those prevailing on the group's estates. Yields per hectare climb rapidly during the first four years of production to a peak level that on average is around 24 tonnes per hectare. Production then remains at or close to this peak level for ten years or more, declining gradually over the last six to eight years of the oil palm's 25 year economic life. The group has achieved yields in excess of 30 tonnes per hectare from fully mature plantings indicating that, in years when cropping is not materially affected by abnormal weather conditions, an average peak yield across all plantings will materially exceed 24 tonnes per hectare.

The FFB crop for 2008 has been budgeted at 421,000 tonnes with the expected increase over 2007 reflecting a budgetary assumption of average rainfall (both as to quantum and distribution) and increased cropping from the 3,150 hectares of oil palms classified as mature from the start of 2008. Crops to end March 2008 were 9,000

tonnes above budget but, as the monthly phasing of each year's crop varies from year to year, this should not be taken as indicating a likelihood that the FFB crop for 2008 as a whole will be above budget.

The CPO extraction rate for 2007 was 23.7 per cent as compared with the rate achieved in 2006 of 23.2 per cent. The group has set a target CPO extraction rate of 24 per cent (which, if achieved, should be regarded as very satisfactory against industry norms).

The palm kernel extraction rate for 2007 (being measured as the percentage by weight of palm kernels extracted from the FFB crop for the year) was 4.0 per cent, slightly above the rate of 3.8 per cent achieved in 2006 and in line with the target palm kernel extraction rate of 4.0 per cent set by the group. Recent machinery adjustments to improve the kernel extraction rate in the newer oil mill may permit upward revision of the target rate of 4 per cent in future years.

The CPKO extraction rate for 2007 (being measured as the percentage by weight of CPKO extracted from the palm kernels processed by the palm kernel crushing plant during the year) was 41.4 per cent.

Revenues and markets

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

The outlook for CPO prices must be considered against the background of consumption of vegetable and animal oils and fats. According to Oil World, worldwide consumption of vegetable and animal oils and fats increased by 4.9 per cent to 153.2 million tonnes in the year to 30 September 2007. The annual increase of 7.0 million tonnes that this represented is in line with the average annual growth in consumption of some 7.0 million tonnes in the preceding three year period. Major uses of vegetable and animal oils and fats have conventionally been for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. An additional use for vegetable oil, which is currently assuming an increasing importance in worldwide demand, is bio-fuels. In particular, bio-diesel demand has accounted for the significantly higher year on year increase in consumption of vegetable oils that has been seen in each of the last three years.

According to Oil World, CPO production in the year to 30 September 2007 totalled 37.3 million tonnes, representing some 24.5 per cent of the total world production of the 17 major vegetable and animal oils and fats for the same period of 152.1 million tonnes. The principal competitors of CPO are the oils from the annual oilseed crops, the most significant of which are soybean, oilseed rape and sunflower. As annual crops, the production from those three oilseed crops can be rapidly adjusted in response to market surpluses or shortfalls within the vegetable oils and fats complex. The directors believe that levels of annual oilseed production will ultimately be driven by fundamental market factors with the result that imbalances will be corrected within a relatively short time frame.

It is however possible that normal market mechanisms may be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there has been action by governments to reduce dependence on fossil fuels. This has included steps to enforce mandatory blending of bio-fuel as a fixed minimum percentage of all fuels and subsidies to support

the cultivation of crops capable of being used to produce bio-fuel. Such action has increased returns for farmers from growing crops such as corn and has meant that land, which under other circumstances could, against the background of the present levels of vegetable oil prices, have been expected to have been converted to growing annual oilseed crops has been used for other purposes.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown in the "Key statistics" section of this annual report. The monthly average price over the ten years has moved between a high of $952 per tonne and a low of $234 per tonne. The monthly average price over the ten years as a whole has been $469 per tonne.

During 2007, the CPO price, spot CIF Rotterdam, rose progressively from an opening level of some $600 per tonne to a closing level of $950 per tonne, resulting in an average price for the year of $780 per tonne, some 63 per cent more than the 2006 average. Further strong price rises were recorded going into 2008 and CPO has, during 2008, traded at levels in excess of $1,300 per tonne although recent weeks have seen prices fall back from the highest levels. Reports suggest that the peak prices of vegetable oils were accompanied by heavy speculative buying as well as increased commercial activity and that the recent fall from peak levels reflects closing of speculative positions. Certainly, demand for all vegetable oils appears to remain strong at a time when stocks are at historically very low levels and competition for hectarage from corn and grain crops is limiting the ability of the annual oilseeds to increase production and reduce the demand pressure on world vegetable oil stocks.

Material losses of rape seed crop resulting from extremely cold weather in China have recently added to the pressures on world vegetable oil supplies. The influence of external market factors in the form of US dollar weakness, uncertainties in the world credit and equity markets and the record price levels of petroleum oil have also significantly increased investment interest in all commodities and in soft commodities in particular.

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

The directors retain their previously expressed view that the prices of all commodities are inherently cyclical and that it would be foolish to assume that the present high price levels for CPO will continue indefinitely. Ultimately, they believe that high prices for vegetable oils will lead to greater production not only of CPO but also of other competing crops and that that, in turn, will result in lower prices. However, they acknowledge that the increasing interest in bio-fuels represents a new factor in vegetable oil markets. With the continuing growth in world population, economic growth in China, India and other parts of the developing world and the prospect of declining availability of fossil fuels (upon which it must be remembered that intensive farming methods are critically dependent), it may be that the average level of vegetable oil prices over future price cycles will be higher than in the past.

The average US dollar FOB price per tonne realised by the group in respect of 2007 sales of CPO was approximately 66 per cent higher than that of 2006. In 2007, approximately 51 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 49 per cent was exported. FOB prices realised for CPO in the local market during 2007 were for the most part marginally higher than those available in the

export market but, as sales volumes continue to increase, the group wishes to ensure that it can access the larger CPO markets available internationally when necessary. Export sales in 2007 continued to be concentrated within the South East Asian region.

Sales are restricted to a small number of local and regional buyers and are made on contract terms that are comprehensive and standard for each of the markets into which the group sells. The group therefore has no need to develop its own policies for product quality, customer service or customer relations.

As a general rule, all CPO produced by the group is sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO production for a forthcoming period of twelve months.

During 2007, the group delivered 12,000 tonnes of CPO under forward sale contracts at the equivalent of a CIF Rotterdam price of $620 per tonne. Otherwise, sales were made on a spot basis. The 2007 forward sale contracts are continuing into 2008 at the rate of 2,000 tonnes per month until June (at the same equivalent price of $620 per tonne) Thereafter the group has forward sales in respect of 2,000 tonnes per month for the six month period to December 2008 and the twelve month period to December 2009 at prices equivalent to CIF Rotterdam prices of respectively $870 and $860 per tonne.

Export duty is now payable on exports of CPO from Indonesia on a percentage basis rising from nil per cent on sales at prices of up to the equivalent of $550 per tonne, CIF Rotterdam, to 25 per cent on sales at prices above the equivalent, on that basis, of $1,300 per tonne.

With the kernel crushing plant in full operation, sales of palm kernels ceased in early 2007. Sales of CPKO were made entirely in the local Indonesian market and achieved an average premium of some $115 per tonne over the FOB price per tonne for CPO.

Cost base

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

The directors believe that the group's senior management team has the capacity to manage a larger area than is currently under cultivation and do not therefore expect a proportionate increase in fixed costs as a result of the planned extension planting programme. Increases in local costs are resulting in some inflation in costs in US dollar terms because the higher Indonesian rupiah costs that such increases are causing are not being compensated by a commensurate depreciation in the value of the Indonesian rupiah against the US dollar.

Particular factors affecting current Indonesian operating costs are substantial increases in the cost of all fertilisers, higher diesel oil prices reflecting the removal of state diesel oil subsidies in 2005 and subsequent increases in international petroleum oil prices and wage inflation. Operating efficiencies achievable from the growing production volumes, coupled with the better absorption of overheads that expansion of planted areas permits, provide some scope for mitigating the resultant impact on margins.

Employees

With the expansion of the group's operations, the group is steadily increasing its workforce. At the end of 2007, the workforce numbered some 6,000. That is sufficient for the current level of operational activity but further recruitment will be required as the extension planting programme progresses. Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates.

The group places considerable emphasis on welfare and remuneration structures and aims to promote a productive and stable workforce. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and creches. The group provides financial assistance to local state schools and operates its own health service with medical facilities in each village and a central hospital. Active support for measures to control endemic diseases such as malaria has resulted in a reduction in the incidence of such diseases in recent years.

The group has health and safety policies that are clearly communicated to all employees and are managed through regular meetings on each operating unit attended by management and employee representatives. The minutes from all such meetings are reviewed by senior management. The group promotes a policy for the creation of equal and ethnically diverse employment opportunities and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management.

Training is an important focus for the group in its efforts to establish best practice in all aspects of the group's activities. Regular training programmes are run as part of the human resource development function. Particular emphasis is placed on health and safety and sustainability.

The group's extension planting programme brings with it the need continuously to enlarge the operational management team and a recruitment programme for graduates with agricultural qualifications is conducted each year. These graduates join the cadet training programme. Those successfully completing this twelve month programme, which provides a grounding in all aspects of oil palm estate management, are offered positions as assistant managers. The recruitment programme for cadets is sized each year to reflect the future management needs of the extension planting programme and to allow for staff turnover.

Courses constructed and operated out of the group's own training school are targeted primarily at lower and middle management levels. The group recognises the importance of developing management skills at all levels and the scope of the group's ongoing training programme includes the external provision of management development courses for the group's senior Indonesian management.

A recent surge of interest in the development of new oil palm plantings in Indonesia generally, and in East Kalimantan in particular, by other plantation groups and new entrants to the plantation industry is putting significant pressure on the industry's limited pool of competent estate management and experienced workers. The group is taking steps to protect its investment in people and skills by giving added focus to the provision of remuneration incentives designed to discourage its employees from switching to other employers. Such steps will inevitably result in further upward pressure on future operating costs.

The Indonesian context

During 2007, the Indonesian domestic economy continued to expand at a moderate rate and the Indonesian government currently projects economic growth in 2008 at above 6 per cent. The rate of inflation has been increasing in recent months, driven by price increases in staple foods, with year on year rates currently running at in excess of 8 per cent. The political situation remains stable but the continuing upward pressure on food prices is a concern. Food shortages would certainly have the potential to cause social unrest.

Having strengthened against the US dollar during 2005, the Indonesian rupiah to US dollar exchange rate has since remained within a narrow range. This, together with a higher domestic cost base and an increasing inflation rate, continues to have a negative impact on foreign direct investment which remains at low levels. On the other hand, Indonesia's economic and political situation appears to be viewed more positively and the country's ability to access international debt markets has improved significantly in recent years.

Rationally Indonesia's economic policies should include the encouragement of those US dollar earning export industries that have natural competitive advantage in the international markets in which they operate. The country has enormous reserves of natural resources in the form of oil, natural gas and other minerals and, with a plentiful supply of land and labour, agriculture can be a major foreign currency earner. In particular, the Indonesian oil palm industry continues to have significant competitive advantage over its Malaysian counterpart and over producers of those vegetable oils derived from the annual oilseed crops. This appears to be recognised by the current Indonesian government and it must be hoped that it will maintain an economic environment in which the oil palm industry can continue to thrive. The directors are encouraged by the government's indicated commitment to further expansion of the Indonesian oil palm industry.

The province of East Kalimantan remained stable and prosperous throughout 2007. The province benefits from a large natural resource base, low population and near full employment. In particular, the coal mining industry continues to develop rapidly within East Kalimantan. Although, as noted under "Area of operations" above, the devolution of authority from central government to provincial governments that has resulted from the Indonesian regional autonomy legislation of recent years has brought with it increased bureaucracy in some areas (in particular land titling), it has also brought benefits to outlying provinces such as East Kalimantan in providing increased resources for provincial development.

Sustainability

Smallholder programmes

The group is active in assisting local villages to establish their own smallholdings of oil palm on a co-operative basis. At 31 December 2007, some 1,200 hectares of smallholder plantings adjacent to the group's operations had been established across nine local villages. Interest from the local village communities in the cultivation of oil palm as a secure long term livelihood continues to increase and the group remains fully committed to a material expansion of the oil palm areas cultivated by the local village communities. Progress is however being slowed by the difficulties experienced by village co-operatives in identifying, and securing suitable titles over, prospective land areas for smallholder developments. Discussions have recently taken place with the provincial government in the hope that this problem can be resolved and that material areas of land adjacent to the group's estates can be earmarked by the government for the development of smallholder plantings.

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

The ethnic background of the communities living in the vicinity of the group's operations varies materially from village to village, and this and other factors result in varying levels of interest in smallholder farming. The group has developed an alternative structure to the conventional smallholder co-operative model with a view to providing a mechanism that will enable those village communities whose lifestyle and culture are not conducive to involvement in smallholder co-operatives to benefit from the economic opportunities afforded by oil palm development. Implementation of this alternative structure has however been held up by the difficulties, referred to immediately above, in securing the land areas on which to operate the new scheme.

Community development

The group believes that successfully involving itself in community development will be key to the future growth and success of its plantation operations. For many years, the group has provided staff and equipment on an ad hoc basis to give support to the local community but, during 2006, it was decided that a more formal and planned approach was required. As a result, the group is establishing small specialist management teams, resident on each site upon which it operates, that will formulate and manage the group's community development initiatives. A team of external consultants is used to produce an initial community needs assessment for each of the group's new development areas.

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

Secondly, each community development team is required to have a day to day presence on the ground, visiting local communities and developing small scale self-help projects with individual groups of villagers. The group has allocated a specific budget to assist in financing these self-help programmes, which to date have included chicken rearing, fish farming and fruit and vegetable cultivation. The proximity of the sizeable workforce resident on the group's estates provides a readily accessible local market for the produce arising from such schemes. Some 20 projects are currently operating with a further 12 in the pipeline for 2008. Each village adjacent to the group's established operations has at least one active project. The establishment of a credit union scheme to assist in the provision of finance for community projects is currently under review.

Conservation

The group continues to develop its conservation programmes based on the environmental impact assessment made in 1995 by independent experts and since periodically updated to reflect the further external expert advice sought by the group. Designated conservation reserves, aimed at conserving or enhancing landscape level bio-diversity, continue to be established within the group's operational areas and, with the

exception of one area that was destroyed by a fire during the 1997/98 El Nino drought, these reserves continue to be managed actively and maintained. The total area of the group's conservation reserves at the end of 2007 amounted to some 6,700 hectares.

The group manages conservation issues through a dedicated on site management team led by an internationally recognised conservation expert. This team is responsible for progressive implementation of the group's conservation policy, which is:

- to compile a detailed record of the physical attributes of the landscape, its bio-diversity resources and the status and value of each to both international and local communities;
- to minimise or eliminate adverse impacts from the group's plantations upon soil, water and biological communities;
- to achieve bio-diversity conservation through protection and sustainable use; and
- to seek conservation outcomes that accrue long term benefit to local communities.

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

All processing waste is recycled. Oil mill effluent is treated in effluent ponds and after treatment is distributed within the oil palm areas as a substitute for inorganic fertiliser. Empty fruit bunches are similarly distributed. Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. This steam is then used to drive steam turbines and to reduce dependence on fossil fuels for power. The group is developing a programme for the centralisation of electricity generation and the establishment of an electrical distribution network as an alternative to using diesel generators in each estate village for the provision of electrical power. An evaluation of the potential for reducing carbon emissions from the CPO production process was started during 2007 and is ongoing. This work is focused on the recovery of methane from the mill effluent ponds. It is hoped that the group may be able to obtain carbon credits under the Clean Development Mechanism to improve the economics of investing in such recovery.

General

The directors believe that recent criticism of the oil palm industry as the alleged principal driver of rain forest destruction in South East Asia is misplaced. Very large areas of rain forest in East Kalimantan were cut down during the second half of the twentieth century when little or no oil palm was planted in the province and existing oil palm developments in East Kalimantan are concentrated in areas that have been deforested by logging companies entirely unconnected with the oil palm companies conducting the developments. Nevertheless, sustainability is obviously an area of major importance for the oil palm industry as a whole.

Since 2005, the group has employed an international firm of consultants to perform an annual management performance review covering production and environmental practices and social sustainability.

Conclusions and recommendations are carefully reviewed by senior operating management and the group's managing director and appropriate responsive action is taken.

During the year, the group became a member of the Roundtable on Sustainable Palm Oil ("RSPO"). The RSPO has produced a set of principles and criteria for the sustainable production of CPO. National interpretations of these principles and criteria are currently being developed in each of the major producer countries so as to be made consistent with that country's legal system. Upon completion of this work, it is anticipated that procedures will be put in place by which individual companies can obtain RSPO accreditation.

The group recognises the importance of developing the competences needed to meet the many demands that sustainability requirements place on responsible oil palm producers. As part of its commitment to achieving best practice and in the absence for the time being of an agreed RSPO accreditation process for Indonesian plantations, the group intends during 2008 to seek ISO 14001 certification for its mill and estate operations.

Finances

Accounting policies

Following a trend set by several other European plantation companies, the group has decided to adopt the US dollar as its presentational currency. The US dollar has long been treated as the functional currency of the group's oil palm operations, CPO is essentially a US dollar based commodity, many of the group's costs are incurred in, or arise in respect of items that are priced by reference to, US dollars and all of the group's borrowings are in US dollars or are hedged against the US dollar. The directors believe that presentation of the group's results in US dollars will reduce distortions caused by exchange movements and thereby make it easier for shareholders to follow the evolution of the group's financial affairs.

Accordingly, while the group continues to report in accordance with International Financial Reporting Standards ("IFRS"), the accompanying consolidated financial statements for the year ended 31 December 2007 are presented in US dollars and the comparative figures, which were originally presented in sterling, have been restated in US dollars.

The accounting policies applied under IFRS are set out in the "Accounting policies (group)" section of this annual report. The accounting policy relating to biological assets (comprising oil palm plantings and nurseries) is of particular importance. Such assets are not depreciated but are instead restated at fair value at each reporting date and the movement on valuation over the reporting period, after adjustment for additions and disposals, is taken to income. Deferred tax is provided or credited as appropriate in respect of each such movement.

As in previous years, the fair value of the biological assets at 31 December 2007 has been derived by the directors on a discounted cash flow basis by reference to the FFB expected to be harvested from the group's oil palms over the full remaining productive life of the palms and to an estimated profit margin based on current costs and an estimated produce value for transfer to mill derived from a twenty year average of historic CPO prices. Key assumptions made in the derivation of fair value as at 31 December 2007 are an average CPO price, FOB port of Samarinda and net of Indonesian export duty, of $414 per tonne and discount rates of 17.5 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies. These compare with the assumptions of the preceding year of an average CPO price per tonne, FOB port of Samarinda and net of Indonesian export duty of $397 (equivalent to $402 per tonne before export duty) and a discount rate in all cases of 17.5 per cent.

The decision to apply different discount rates to the valuation of different components of the group's biological assets at 31 December 2007 reflects the directors' view that, with the estates owned by REA Kaltim now approaching full maturity and with the still immature areas owned by other group companies expanding, it is no longer appropriate to value all of the biological assets on a single discount rate. Instead they believe that it is appropriate to reflect, in the discount rate applied in valuing the more immature areas, the greater risks inherent in successfully harvesting the FFB crops projected to be produced from those areas than in harvesting the projected FFB crops from established areas. The valuation of the biological assets at 31 December 2007 also reflects one other refinement of valuation methodology. Having reviewed the initial costs of oil palm extension development, the directors have concluded that, with increasing levels of infrastructural establishment, the costs of infrastructural development should no longer be treated as an input to the creation of biological assets. Instead, with effect from the beginning of 2007, such costs are being capitalised and depreciated as permanent infrastructure.

The directors recognise that the IFRS accounting policy in relation to biological assets does have theoretical merits in each year charging to income a proper measure of capital consumed (so that, for example, a fair distinction is drawn each year between the cost of the shortening life expectancy of younger plantings still capable of many years of cropping and that of older plantings nearing the end of their productive lives). It does, however, concern the directors that no estimate of fair value can ever be completely accurate (particularly in a business in which selling prices and margins are subject to very material fluctuations). Moreover, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on results. The biological assets are recorded in the group balance sheet at 31 December 2007 at $166 million. An increase or reduction of $5 per tonne in the unit profit margin per tonne of FFB used for the purpose of the valuation would increase or reduce the valuation by approximately $20 million.

The company continues to prepare its individual financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice; accordingly the company's individual financial statements are presented separately from the consolidated financial statements.

Accounting reference date

The company's current accounting reference date is 31 December. This is not ideal in terms of internal staff availability for the preparation of year end reports. Moreover, the end of the calendar year is a popular reporting date and the group finds itself competing with other groups (many of them much larger than the group) to obtain from its auditors allocations of audit staff for the time needed to audit the financial statements of the company and its subsidiaries.

The directors are therefore contemplating a change in the company's accounting reference date to 28 February. Such a change would require the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. If the directors decide to proceed with the change and the necessary noteholder consent is obtained during the course of 2008, the current reporting period of the company would be extended to 28 February 2009.

Group results

Group operating profit for 2007 amounted to $49.4 million and profit before tax to $47.0 million against the comparable figures of the preceding year (as restated in US dollars) of $20.8 million and $19.8 million.

Review of the group continued

The principal movements in the components of operating profit reported in 2007 were an increase in revenue of $24.5 million ($57.6 million against $33.1 million), and a positive movement of $5.6 million in the amount arising from changes in the fair value of agricultural produce inventory. The net gain from changes in the fair value of biological assets at $8.0 million was much in line with the biological gain in 2006 of $8.7 million.

The higher revenue reported reflected a combination of increased production, better selling prices and additional revenues from selling CPKO rather than unprocessed palm kernels. The gain from changes in the fair value of agricultural produce inventory arose from increases over 2007 both in the volume of agricultural produce held as inventory and in the fair value attributed to each tonne of inventory so held (itself the result of the increase in the prices of CPO and CPKO over the year).

Interest payable in 2007 (before deduction of the interest component added to biological assets) amounted to $9.2 million against $6.5 million in 2006. The increased charge principally reflected the higher average level of group indebtedness during 2007 as compared with the previous year. This resulted from the issues of debt securities made by the group at the end of 2006 and in early 2007. Interest cover for 2007 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, and biological gain to interest payable) was 5.1 against 2.3 for 2006.

Although the group continues to have substantial tax losses carried forward these losses are mainly in the UK members of the group and are not available for offset against the profits of REA Kaltim. That company exhausted its remaining tax losses during 2007 and, as a result, 2007 saw a sharp increase in the current tax provision which amounted to $5.3 million (against $222,000 in 2006). Provision for deferred tax on timing differences and on the biological gain accounted for the balance of the 2007 tax charge (as also in 2006).

At the after tax level, profit for the year at $32.0 million was 130 per cent ahead of the $13.9 million achieved in 2006 while profit attributable to ordinary shareholders was 155 per cent ahead of the preceding year. Fully diluted earnings per share amounted to US 89.6 cents (2006 - US 37.8 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2007 was 42.5 per cent against 25 per cent for 2006.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2007 were duly paid.

Dividends totalling 2p per ordinary share have been paid in respect of 2007 (2006 – 1p per ordinary share). These comprised a first interim dividend of 1p per ordinary share paid on 5 October 2007 and a second interim dividend in lieu of final of 1p per ordinary share paid on 25 January 2008. In addition, the company made a capitalisation issue to ordinary shareholders of 1,085,795 new preference shares on the basis of one new preference share for every 30 ordinary shares held on 1 October 2007.

As noted under "Land development" in "Operations" above, the group has ambitious plans for continued extension planting of oil palms. These will require substantial investment by the group and the need to fund this investment will inevitably constrain the rate at which the directors feel that they can prudently declare, or recommend the payment of, future ordinary dividends. The directors do appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. With the prospect of increasing crops for several years to come, the directors believe that, notwithstanding the constraints of the development programme, the group should be able

to support progressive increases in ordinary dividends from the modest levels established in respect of 2006 and 2007, but they believe that the rate of progression should be steady rather than dramatic. The directors intend that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years.

If the group's results would appear to justify some additional return to ordinary shareholders beyond the level of ordinary dividends that the directors believe that the company can prudently afford having regard to the need to conserve cash resources, the directors may consider a further capitalisation issue to ordinary shareholders of new preference shares.

Capital structure

The group is financed by a combination of debt and equity (which under IFRS includes minority interests and the company's preference share capital). Total equity less minority interests at 31 December 2007 amounted to $147.8 million as compared with $104.9 million at 31 December 2006. Minority interests amounted at those dates to, respectively, $877,000 and $600,000.

2007 saw further consolidation of the group's financial position. In January 2007, the balance of £7,000,000 nominal of the proposed total issue of £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") was issued for cash at a subscription price of 99.6574 per cent of par by REA Finance B.V. ("REA Finance"), a wholly owned subsidiary of the company. This was followed in April and September 2007 by issues of, respectively, 1,500,000 new ordinary shares and 1,064,581 new preference shares for cash, to raise some £7.6 million, net of expenses. A further 1,085,795 new preference shares were issued in October 2007 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above.

The combined effect of the foregoing transactions was to increase the group's liquidity, as discussed under "Liquidity and financing adequacy" and to reduce its dependence on short term bank borrowings. As a result, group indebtedness at 31 December 2007 amounted to $86.2 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $15.4 million, £22 million nominal of sterling notes (carrying value: $40.7 million), $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.4 million) and other short term indebtedness (including obligations under finance leases) of $0.7 million. Against this indebtedness, at 31 December 2007 the group held cash and cash equivalents of $34.2 million.

The sterling notes are secured principally on unsecured loans made by REA Finance to REA Kaltim, are guaranteed by the company and are repayable by three equal annual instalments commencing 31 December 2015. The dollar notes are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012.

Borrowings under the Indonesian consortium loan facility are secured on the assets of REA Kaltim and are guaranteed by the company. The outstanding balance of $15.4 million at 31 December 2007 is repayable as follows: 2008 - $2.5 million, 2009 - $10.7 million and 2010 - $2.2 million.

The group has entered into a long term sterling US dollar debt swap to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but, in the case of interest, only as respects interest payments falling due up to and including 31 December 2015).

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents reduced slightly over 2007 from $37.27 million to $34.22 million.

Net cash flow from operating activities amounted to $28.18 million against $7.11 million for 2006, an increase of $21.07 million. Key components of this increase were a sharply higher operating profit ($49.39 million against $20.77 million), absorption of $8.76 million of cash in working capital (2006 - $3.70 million) and higher tax payments ($3.16 million against $0.22 million). The movement in working capital included an $8.13 million increase in inventories which reflected an unusually high level of CPO stocks at 31 December 2007 as a result of some collections scheduled for the Christmas period being delayed until January 2008.

Investing activities for 2007 involved a net outflow of $31.78 million (2006 - $33.40 million). This reflected expenditure on the group's continuing development programme totalling $33.62 million (2006 - $33.67 million), offset by inflows from interest and other items of $1.84 million (2006 - $0.27 million). The net outflow in respect of investing activities was financed by a combination of net cash flow from operating activities and opening cash and cash equivalents.

Cash inflows and outflows from financing activities were broadly in balance with new debt and equity capital providing $29.64 million, bank debt and finance lease repayments amounting to $26.10 million and dividend payments of $3.55 million.

Delays to the planned development programmes during 2007 meant that the level of development expenditure was lower than would have been the case had the programmes proceeded as planned. This is reflected in the closing level of cash and cash equivalents.

Liquidity and financing adequacy

As noted under “Group cash flows” above, the group held cash and cash equivalents at 31 December 2007 of $34.2 million In addition, the group had at that date a working capital line of $3.5 million, subject to annual renewal, under which $0.5 million had been drawn and an undrawn balance of $4 million under the Indonesian consortium loan facility available for drawing until 7 September 2009 and, to the extent drawn, repayable in 2010.

On the basis of present CPO prices, the directors expect that operating cash flows for the remainder of 2008, together with the group's existing cash resources, will be sufficient to fund both the planned development programme for the year and near term debt repayments. However, looking beyond 2008 and allowing for the fact that CPO prices may not be sustained at present levels, the group is likely to require some further funding if, as the directors hope will be the case, high levels of extension planting are achieved. The directors intend to meet this further funding requirement with additional borrowings which they will seek to raise from development and other banks and, if market conditions permit, from further issues of listed debt securities. The directors are confident that the group’s equity base is now sufficient comfortably to sustain the additional debt envisaged.

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

that the applicable covenants will affect the ability of the company to meet its cash obligations.

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

Financing policies

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

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

The directors believe that the group's existing capital structure is consistent with this policy objective but recognise that planned further investment in extension planting and the inevitable shortening of the maturity profile of the group's current indebtedness that will result from the passage of time will mean that future action will be required to ensure that the group's capital structure continues to meet the objective.

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. Net debt represented 35.0 per cent of total equity at 31 December 2007 against a target of 60 per cent and a level of 57.4 per cent at 31 December 2006. The target for 31 December 2008 based on budget projections for 2008 is 60 per cent.

Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest going forward is payable on drawings under the Indonesian consortium loan facility at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate. As a policy, the group does not hedge its exposure to floating rates but, where possible, borrows at fixed rates. A one per cent increase in the floating rate of interest payable on the drawings under the Indonesian consortium loan facility at 31 December 2007 would result in an annual cost to the group of approximately $154,000 before taxation.

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no material currency exposure against the US dollar. Accordingly,

where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated equity. The group's policy is to maintain a balance in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months and a balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements but, otherwise, to keep all cash balances in US dollars.

Risks and uncertainties

Agricultural factors

Although the group's operations are located in an area of high rainfall with sunlight hours and soil conditions well suited to the cultivation of oil palm, weather and growing conditions vary from year to year and setbacks are possible. As in any agricultural operation, there are also risks that crops may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

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

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

Operational factors

The group's productivity is dependent upon necessary inputs, including, in particular, fertiliser and fuel. Whilst the directors have no reason to anticipate shortages in the availability of such inputs, should such shortages occur over any extended period the group's operations could be materially disrupted. Equally, increases in input costs would be likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop. The group endeavours to maintain resilience in its processing facilities with two factories operating separately and some ability within each factory to switch from steam based to diesel based electricity generation but such resilience would be inadequate to compensate for any material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of operations and at its transhipment terminal downstream of the port of Samarinda. Such facilities and the further storage facilities afforded by the group's fleet of barges have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage. Nevertheless, disruptions to river transport between the main areas of operations and the port of Samarinda, or delays in collection of CPO and CPKO from the transhipment terminal, could result in a group requirement for CPO and CPKO storage exceeding the available capacity. This would be likely to force a temporary cessation in FFB processing with a resultant loss of crop.

Many of the group's operational and financial controls are dependent, in part, on the group's management systems. These include computerised systems. Any damage or failure of such computerised systems could have a deleterious effect on the group.

The group maintains insurance to cover those risks against which the directors consider that it is economic to insure. Certain risks (including the risk of fire in planted areas), for which insurance cover is either not available or would, in the opinion of the directors, be disproportionately expensive, are not insured. Occurrence of an adverse uninsured event could result in the group sustaining material losses.

Produce prices

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

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

The Indonesian authorities have in the past (for short periods and in times of very high CPO prices) imposed either restrictions on the export of CPO and CPKO or punitive duties on export sales of such oil. Such measures are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia. Moreover, CPO is an important component of Indonesia's US dollar earning exports. The directors have been encouraged that the significant rise in CPO and CPKO prices during 2007 and the early months of 2008 has not seen a reimposition of such restrictions or imposts. Instead, the Indonesian government has continued to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on CPO and CPKO exports. Pursuant to this scale, the percentage rate of duty levied on the Indonesian gazetted price of CPO (being broadly the prevailing FOB market price of CPO) currently rises from nil on prices up to the equivalent of $550 per tonne CIF Rotterdam to 25 per cent on prices equivalent to $1,300 per tonne CIF Rotterdam or above.

World markets for CPO and CPKO may be distorted by the imposition of import controls or taxes in consuming countries. The directors believe that the imposition of such controls or taxes on CPO or CPKO will normally result in greater consumption of alternative vegetable oils within the area in which the controls or taxes have been imposed and the substitution outside that area of CPO and CPKO for other vegetable oils. Should such arbitrage fail to occur or prove insufficient to compensate for the market distortion created by the applicable import controls or taxes, selling prices for the group's CPO and CPKO could be depressed.

Expansion

The group is planning significant extension planting of oil palm. The directors hope that land allocations obtained by the group will become available for planting ahead of the land becoming needed for the planned development programme and that such development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further externally raised capital. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding (as was the case in 2007 as respects land), the planned extension planting programme, upon which the group's continued growth is critically dependent, may be delayed and could have to be curtailed.

Review of the group continued

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

Currency

CPO is essentially a US dollar based commodity. Accordingly, the group's revenues and the underlying value of the group's oil palm operations are effectively US dollar denominated. All of the group's borrowings other than the sterling notes are also US dollar denominated and the group has entered into a sterling US dollar debt swap to hedge the sterling notes. A substantial component of the group's costs (including fertiliser and machinery inputs) are US dollar denominated or linked. Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiah and sterling may, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

Environmental practices

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

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

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation) could have a negative impact on the group's activities. Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions.

Land in East Kalimantan held by the group is held subject to the satisfaction by the group of various continuing conditions, including conditions requiring the group to promote smallholder developments of oil palm on areas ultimately equivalent to not less than 20 per cent of the group's titled areas.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence. In recent years, there have been occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. As noted under "The Indonesian context" in "Operations" above, during 2007 Indonesia remained stable and the Indonesian economy continued to grow. Recent upward pressure on food prices is, however, a concern and food shortages could cause social unrest.

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

Although there can be no certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles granted to the group, impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Local relations

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

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

The group's operations are established in a relatively remote and sparsely populated area. The operational areas were acquired with the knowledge and support of the local authorities and development has been arranged wholly within the areas in respect of which the group has obtained the required development permits. These areas are comprised of government owned land which was for the most part unoccupied prior to the group's arrival. However, some small areas of land were previously used by local villagers for the cultivation of crops and, accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.

The negotiation of compensation payments can involve a considerable number of local individuals with differing views and this can cause difficulties in reaching agreement with all affected parties. There is also a risk that, after an agreement has been completed, a party to the agreement may become disaffected with the terms agreed and may seek to repudiate the agreement. Such difficulties and risk have in the past caused, and are likely to continue periodically to cause, delays to the extension planting programme and other disruption. The group has to-date been successful in managing such periodic

delays and disruption so that they have not, in overall terms, materially disrupted the group's extension planting programme or operations generally but there is a continuing risk that they could do so.

Other relationships

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

Relationships with minority shareholders in Indonesian group companies are also important to the group. The group endeavours to maintain cordial relations with the persons concerned by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
24 April 2008

Directors

Richard Robinow
Chairman (62)

Was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, has been involved for over 25 years in the plantation industry. Non-executive but devotes a significant proportion of his working time to the affairs of the group. Chairman of M P Evans Group plc and a director of Sipef NV.

John Oakley
Managing director (59)

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

John Green-Armytage
Independent non-executive director (62)

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

John Keatley
Senior independent non-executive director (74)

Was a non-executive director from 1975 to 1983 (and chairman from 1978 to 1983). Rejoined the board in a non-executive capacity in 1985 and is chairman of the nomination committee. After a background in the fertiliser industry is now Chairman of NPK Holdings Limited.

David Killick, FCIS
Independent non-executive director (70)

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

Charles Letts
Independent non-executive director (89)

Was appointed a director in 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, was a main board director of Jardine Matheson & Co. Limited for 15 years and then set up his own business. Thereafter, for over 40 years, has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. Present directorships include The China Club Limited and China Investment Fund.

Chan Lok Lim
Independent non-executive director (66)

Was appointed a director in August 2002. Has been involved for over 30 years in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. Chairman of SPC Power Corporation listed on the Philippines Stock Exchange, chairman and president of Agusan Plantations Inc, Philippines and a director of Pan Abrasives (Private) Limited, Singapore.

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' reports, for the year ended 31 December 2007.

Principal activities and business review

The principal activity of the group is the cultivation of oil palms in the Indonesian province of East Kalimantan. A review of the activities and planned future development of the group together with the principal risks and uncertainties facing the group is provided in the accompanying "Review of the group" section of this annual report which is incorporated by reference in this Directors' report. In particular, that review includes information as to group policy and objectives regarding the use of financial instruments. Information as to such policy and objectives and the risk exposures arising is also included in note 20 to the consolidated financial statements.

The group does not undertake significant research and development activities.

Details of significant events since 31 December 2007 are contained in note 38 to the consolidated financial statements.

Results and dividends

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

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2007 were duly paid. A first interim dividend in respect of 2007 of 1p per share was paid on the ordinary shares on 5 October 2007 and a second interim dividend in lieu of final of a further 1p per share was paid on those shares on 25 January 2008. The directors do not recommend the payment of any further ordinary dividends in respect of 2007.

Charitable and political donations

During the year the group made no charitable or political donations.

Supplier payment policy

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

Directors

The directors are listed on page 39. All the directors served throughout 2007. Messrs Robinow, Green-Armytage, Keatley and Letts retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being, as respects Messrs Robinow and Green-Armytage, in compliance with the provisions of the company's articles of association providing for rotation of directors and, as respects all such retiring directors, in compliance with the provisions of the Combined Code on Corporate Governance requiring the annual re-election of non-executive directors who have served as such for more than nine years.

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

the other non-executive directors offering themselves for re-election that, following formal performance evaluations, each such individual's performance continues to be effective and to demonstrate commitment to the role assumed, including commitment of time for board and committee meetings and, where applicable, other assigned duties.

Directors' interests

At 31 December 2007, the interests of directors (including interests of connected persons as defined in section 96B(2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to become, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as follows:

	Preference shares	Ordinary shares
R M Robinow	25,248	9,981,667
J M Green-Armytage	5,219	80,704
J R M Keatley	24,435	680,878
D H R Killick	-	15,000
L E C Letts	7,904	108,008
C L Lim	-	-
J C Oakley	513	1,804

Details of an option held by Mr Oakley to subscribe for ordinary shares of 25p each of the company are provided in the "Directors' remuneration report" section of this annual report. There have been no changes in the interests of the directors detailed above between 31 December 2007 and the date of this report.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 309B of the Companies Act 1985) were in force for the benefit of directors of the company and of other members of the group throughout 2007 and remain in force at the date of this report.

Substantial shareholders

As at the date of this report, the company has received notifications required by The Disclosure Rules and Transparency Rules of the Financial Services Authority from the following persons of voting rights held by them as shareholders through the holdings of ordinary shares indicated :

	Number	%
Emba Holdings Limited	9,925,000	30.47
Alcatel Bell Pensioenfonds VZW	4,007,049	12.30
Prudential plc and certain subsidiaries	3,904,870	11.99
Artemis UK Smaller Companies	1,919,400	5.89

In addition, the company has been notified that the above interest of Prudential plc and certain subsidiaries includes 3,447,792 ordinary shares (10.58 per cent) in which M&G Investment Funds 3 is also interested.

The shares held by Emba Holdings Limited are included as part of the interest of Mr R M Robinow shown under "Directors' interests" above. By deeds dated 24 November 1998 and 10 April 2001, Emba Holdings Limited has agreed that it will not undertake activities in conflict with those of the group and that it will deal with the group only on a basis that is appropriate between a listed company and its subsidiaries and a significant shareholder.

Control and structure of share capital

The authorised share capital of the company at 31 December 2007 amounted to £24,750,000 comprising 14,500,000 9 per cent cumulative preference shares of £1 each and 41,000,000 ordinary shares of 25p each of which, respectively, 13,600,000 preference shares and 32,573,856 ordinary shares had been issued and were fully paid up. Accordingly, at that date, the issued preference share capital and the issued ordinary share capital represented, respectively, 62.5 and 37.5 per cent of the total issued share capital. Changes in share capital

during 2007 are summarised in note 28 to the consolidated financial statements.

The rights and obligations attaching to the ordinary and preference shares are governed by the company's articles of association and prevailing legislation. Rights to income and capital are summarised in note 28 to the consolidated financial statements.

On a show of hands at a general meeting of the company, every holder of shares and every duly appointed proxy of a holder of shares, in each case being a holder entitled to vote on the resolution before the meeting, shall have one vote. On a poll, every holder of shares present in person or by proxy and entitled to vote on the resolution the subject of the poll shall have one vote for each share held. Holders of preference shares are not entitled to vote on a resolution proposed at a general meeting unless, at the date of notice of the meeting, the dividend on the preference shares is more than six months in arrears or the resolution is for the winding up of the company or is a resolution directly and adversely affecting any of the rights and privileges attaching to the preference shares. Deadlines for the exercise of voting rights and for the appointment of a proxy or proxies to vote in relation to any resolution to be proposed at a general meeting are governed by the company's articles of association and prevailing legislation and will normally be as detailed in the notes accompanying the notice of the meeting at which the resolution is to be proposed.

There are no restrictions on the size of any holding of shares in the company. Shares may be transferred either through the CREST system (being the relevant system as defined in the Uncertificated Securities Regulations 2001 of which CRESTCo Limited is the operator) where held in uncertificated form or by instrument of transfer in any usual or common form duly executed and stamped, subject to provisions of the company's articles of association empowering the directors under certain circumstances to refuse to register any transfer of shares where the shares are not fully paid, the shares are to be transferred into a joint holding of more than four persons, the transfer is not appropriately supported by evidence of the right of the transferor to make the transfer or the transferor is in default in compliance with a notice served pursuant to section 793 of the Companies Act 2006. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person holds securities carrying special rights with regard to control of the company and there are no arrangements in which the company co-operates by which financial rights carried by shares are held by a person other than the holder of the shares.

The appointment and replacement of directors is governed by the company's articles of association and prevailing legislation, augmented by the principles laid down in the Combined Code on Corporate Governance which the company seeks to apply in a manner proportionate to its size as further detailed in the "Corporate governance report" section of this annual report.

The articles of association provide that the business of the company is to be managed by the directors and empower the directors to exercise all powers of the company, subject to the provisions of such articles (which include a provision specifically limiting the borrowing powers of the group) and prevailing legislation and to such directions as may be given by the company in general meeting by special resolution. The articles of association may only be amended by a special resolution of the company in general meeting and, where such amendment would modify, abrogate or vary the class rights of any class of shares, with the consent of that class given in accordance with the company's articles of association and prevailing legislation.

The 7.5 per cent dollar notes 2012/14 of the company ("dollar notes") and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. ("sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any usual or common form duly executed in amounts and multiples, in the former case, of $1 and, in the latter case, of £1,000. There is no maximum limit on the size of any holding in either case.

Significant holdings of preference shares, dollar notes and sterling notes shown by the register of members and registers of dollar and sterling noteholders at 31 December 2007 were as follows:

	Preference shares	Dollar notes	Sterling notes
		$'000	£'000
Mellon Nominees (UK) Limited BSDTABN Account	–	–	3,448
Rulegale Nominees Limited JAMSCLT Account	2,344,198	–	–
Vidacos Nominees Limited	–	–	9,750
Vidacos Nominees Limited CLRLUX Account	–	3,315	–
Morris Edward Zukerman	–	9,500	–
Morris Edward Zukerman ZFT Account	–	9,500	–

A change of control of the company would entitle holders of the sterling notes and certain holders of the dollar notes to require repayment of the notes held by them as detailed in notes 22 and 23 to the consolidated financial statements.

The option held by Mr J C Oakley to subscribe for ordinary shares of 25p each of the company as referred to under "Directors' interests" above may be exercised within six months of a change of control. Awards to senior group executives under the company's long term incentive plan will vest and may be encashed within one month of a change of control as detailed under "Long term incentive plan" in the "Directors' remuneration report" section of this annual report. The directors are not aware of any agreements between the company and its directors or between any member of the group and a group employee that provides for compensation for loss of office or employment that occurs because of a takeover bid.

Treasury shares and power to repurchase shares

No shares of the company are at present held in treasury.

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting. There is no authority extant for the purchase by the company of its own shares.

Increase in share capital

At the forthcoming annual general meeting, a resolution will be proposed to increase the authorised share capital of the company from £24,750,000 to £27,750,000 by the creation of 3,000,000 additional 9 per cent cumulative preference shares of £1 each ranking pari pass in all respects with the existing preference shares and representing 20.7 per cent of the existing authorised preference share capital.

As indicated in the "Review of the group" section of this annual report, the directors believe that, if circumstances permit, the company should increase its issued preference share capital in line with growth in the group's equity base. In particular, if the group's results would appear to justify some additional return to ordinary shareholders beyond the level of ordinary dividends that

the directors believe that the company can prudently afford having regard to the need to conserve cash resources, the directors may consider a further capitalisation issue to ordinary shareholders of new preference shares such as was made during 2007. The proposed creation of additional preference shares is designed to give the company sufficient authorised preference share capital to permit the directors without further approval to issue new preference shares for these purposes within the specified limit of the authority to allot new preference shares to be sought at the annual general meeting.

Power to issue share capital

At the annual general meeting held on 5 June 2007, shareholders authorised the board under the provisions of section 80 of the Companies Act 1985 to allot relevant securities within specified limits. Replacements of the applicable authorities are being sought at the forthcoming annual general meeting when the existing authorities will expire. The replacement authorities will provide for the allotment of (i) ordinary share capital up to an aggregate nominal amount of £2,106,536, (comprising 8,424,144 ordinary shares) equating to the unissued ordinary share capital at the date of this report and (ii) preference share capital up to an aggregate nominal amount of £3,900,000 (comprising 3,900,000 preference shares) representing the unissued preference share capital at the date of this report and the additional preference share capital proposed to be created at the forthcoming annual general meeting.

The new ordinary shares and new preference shares the subject of the new authorities will represent, respectively, 25.9 per cent and 28.7 per cent of the ordinary shares and preference shares in issue at the date of this report. The new authorities will lapse on the date of the annual general meeting to be held in 2009, which will be no later than 15 months from the passing of the resolutions granting the authorities. Save as indicated in relation to preference shares under "Increase in share capital" above, the directors have no present intention of exercising these authorities.

A fresh authority is also being sought under the provisions of section 95 of the Companies Act 1985 to enable the board to make a rights issue or open offer of ordinary shares to existing ordinary shareholders without being obliged to comply with certain technical requirements of the Companies Act 1985, which create problems with regard to fractions and overseas shareholders. In addition, the authority will give the board power to make issues of ordinary shares for cash other than by way of rights or open offer up to a maximum nominal amount of £407,173 representing 5 per cent of the ordinary share capital in issue at the date of this report. The section 95 authority will terminate on the date of the annual general meeting to be held in 2009, which will be no later than 15 months from the passing of the resolution granting this authority.

Recommendation

The board considers that increasing the share capital of the company and granting the directors authorities and power as detailed under "Increase in share capital" and "Power to issue share capital" above is in the best interests of the company and shareholders as a whole and recommend that ordinary shareholders vote in favour of the resolutions needed to effect the increase and provide the authorities and power as set out in the notice of the forthcoming annual general meeting under the heading "Special business".

Auditors

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

himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

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

By order of the board
R.E.A. SERVICES LIMITED
Secretary
24 April 2008

Corporate governance

General

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ("the Code") provide a widely endorsed model for achieving this. The directors seek to apply those principles in a manner proportionate to the group's size but reserving the right enshrined in the Code, when it is appropriate to the individual circumstances of the company, not to comply with certain Code principles and to explain why.

Save as respects the composition of the audit and remuneration committees prior to 3 September 2007 as detailed below and in the "Directors' remuneration report" section of this annual report, the company was, throughout the year ended 31 December 2007, in compliance with the provisions set out in section 1 of the Code. In making this statement, the directors have reflected their view detailed below as to the independence of long serving non-executive directors.

Board of directors

The board currently comprises one executive director and six non-executive directors (including the chairman). Biographical information concerning each of the directors is set out in the "Directors" section of this annual report. The board believes that the variety of backgrounds and skills provided by its members provides perspective and facilitates balanced and effective decision making. The chairman and managing director (as the chief executive is called) have defined separate responsibilities and neither has unfettered powers of decision. All of the non-executive directors, with the exception of the chairman, are considered by the board to have been independent throughout the year.

The directors acknowledge that some institutional investors take the view that non-executive directors who have served on the board of the company for more than nine years can never be regarded as independent non-executive directors and that on this basis three longer serving non-executive directors who have so served should not be treated as independent. Although the Code states that service by a director for more than nine years is to be taken into account by the board in assessing the independence of the director concerned, it is not, in terms of the Code, determinative of independence. All three of the long serving non-executive directors of the company have been re-elected annually after endorsement of their independence by their co-directors as required by the Code and none of these directors is financially or otherwise materially dependent upon the company. The board is satisfied that the independence of the long serving independent non-executive directors is not affected by their length of service.

Two non-executive directors, who are independent, have served on the board for less than nine years and the company would therefore comply with the Code requirement that at least two members of the board be independent non-executive directors even if all longer serving non-executive directors were treated as not independent. However, the Code also requires that some or all members of the audit, remuneration and nomination committees, and the person appointed as senior independent non-executive director, be independent non-executive directors. The board's view as to the independence of long serving non-executive directors is relevant to the company's compliance with these aspects of the Code.

Whilst, as already noted, the directors do not agree with the view that long service automatically negates the independence of a non-executive director, they do accept that it is important to retain shareholder confidence in the board and, in particular, in the audit committee's contribution to the integrity of the audit process. Following the rapid growth in the group's operations in recent years, the directors have seen as their highest

priority the development of resilience in the group's management in Indonesia. With the recent progress that has been made in this area, the directors have concluded that appointing one further non-executive director would not now pose a material distraction from the continuing efforts to address other strategic issues.

Accordingly, the directors have invited the nomination committee to make recommendations for appointment of an additional non-executive director with the expectation that such director would have a relevant financial background. The directors hope that an appointment can be completed within a few months. This will further refresh the board and will facilitate further revisions to the composition of board committees with a view to putting beyond question their compliance with Code requirements.

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

Board responsibilities

The board is responsible for the proper management of the company. Full quarterly reports are issued to all directors following the end of each quarter for their review and comment. These are augmented by annual budgets and positional papers on matters of a non routine nature. The board has a schedule of matters that are reserved for decision by it. Such matters include strategy, material investments and financing decisions and the appointment and removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet objectives and for reviewing performance, financial controls and risk.

As noted in the statement on corporate governance in the 2006 annual report, the company ceased to carry appropriate insurance against legal action against its directors at the end of 2004 due to actual and threatened litigation. Following settlement of this litigation, the company was again able to arrange such insurance which became effective from 1 January 2007. The company was therefore compliant with the Code requirement to carry such insurance for the whole of 2007.

Board committees

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

Performance evaluation

A formal evaluation of the performance of the board, the committees and individual directors was undertaken in 2007 and again recently in 2008. Balance of powers, contribution to strategy, monitoring and accountability to stakeholders were reviewed by the board as a whole and the performance of the chairman was appraised by independent non-executive directors led by the senior independent director.

Professional development

In view of their previous relevant experience and, in most cases, length of service on the board, all directors are familiar with the financial and operational characteristics of activities of the type conducted by the group. They are required to ensure that they maintain that familiarity and keep themselves fully cognisant of the affairs of the group and matters affecting its operations and finances.

Corporate governance continued

Whilst there are no formal training programmes, the board regularly reviews its own competences and may arrange training on specific matters where it is thought to be required. Directors are kept advised of legal and regulatory requirements affecting the company and are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

Board proceedings

With effect from September 2007, at least four full board meetings are to be held each year. Prior to that the minimum was two full meetings in each year although in 2007 there were, in fact, five such meetings. Other board meetings are held as necessary to consider corporate and operational matters with all directors consulted in advance regarding significant matters to be discussed. Minutes of board meetings are circulated to all directors. The executive director, unless travelling, is normally present at full board meetings but, where appropriate, telephone discussions take place between the chairman and the other non-executive directors outside the formal meetings. Committee meetings are held as and when such are required.

The attendance of individual directors at the full and "ad hoc" board meetings held during 2007 were as follows:

	Full meeting	Ad hoc meeting
R M Robinow	5	15
J C Oakley	5	17
J M Green-Armytage	4	-
J R M Keatley	5	3
L E C Letts	4	1
C L Lim	3	-
D H R Killick	5	1

In addition, during 2007, there were three meetings of the audit committee; the first was held prior to the change in the composition of the committee and the other two meetings were held after the change. All meetings were attended by all committee members. There were no meetings of the remuneration committee during 2007 as the meeting that would normally have been held in December 2007 was delayed to January 2008 (when it was attended by Mr J M Green-Armytage, Mr D H R Killick and Mr R M Robinow). There were no meetings of the nomination committee during 2007.

Nomination committee

The nomination committee comprises Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. It is responsible for recommending appointments to the board. Recommendations from the committee are submitted for full approval by the board. No new board appointments were considered in 2007.

Audit committee

The audit committee currently comprises Mr J M Green-Armytage (chairman) and Mr D H R Killick both of whom were appointed on 3 September 2007 and both of whom are considered by the directors to have the relevant financial experience. Prior to that the committee comprised Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow.

The audit committee is responsible for:

- monitoring the integrity of the financial statements and the significant reporting issues and judgements that they contain;
- reviewing the effectiveness of the internal control functions (including the internal audit function and arrangements whereby internally raised staff concerns as to financial reporting and other relevant matters are considered);
- making recommendations to the board in relation to the appointment, reappointment and removal of the external auditors, their remuneration and terms of engagement; and

- reviewing and monitoring the independence of the external auditors and the effectiveness of the audit process.

The audit committee also monitors the engagement of the auditors to perform non-audit work. During 2007, the only non-audit work undertaken by the auditors was routine compliance reporting in connection with documents issued by the company and covenant obligations applicable to certain group loans. The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements was such that the independence and objectivity of the auditors was not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves and with the external auditors and management, by consideration of reports by management, the Indonesian internal audit function and the external auditors and by holding at least three formal meetings in each year.

Relations with shareholders

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

The directors endeavour to ensure that there is satisfactory dialogue, based on mutual understanding, between the company and its shareholder body. The annual report, interim communications, periodic press releases and such circular letters to shareholders as circumstances may require are intended to keep shareholders fully informed as to progress in the operational activities and financial affairs of the group. In addition, within the limits imposed by considerations of confidentiality, the company has regular meetings and other contact with institutional and other major shareholders in order to understand their concerns. The views of shareholders are communicated to the board as a whole to ensure that the board maintains a balanced understanding of shareholder opinions and issues arising.

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

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

Internal control

The board has overall responsibility for the group's system of internal control and reviewing its effectiveness. The board has established a continuous process for identifying, evaluating and managing the significant risks the group faces. The board regularly reviews the process, which was in place since throughout 2007 and has remained in place up to the date of approval of this report

and which is in accordance with the revised guidance on internal control published in October 2005. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The board performed a specific review of the system of internal control on 3 September 2007 (including the group's internal audit arrangements) and reconfirmed the review for the purposes of this annual report. The review, as reconfirmed, considered all aspects on internal control arising during the period covered by the report. During the course of the review, the board did not identify or become aware of any failings or weaknesses in internal control which it determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered necessary.

Internal audit and reporting

The group's Indonesian operations have an internal audit function supplemented where necessary by the use of external consultants. The function reports regularly and summaries of the reports are issued to the audit committee. In the opinion of the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

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

Management reports to the board on a regular basis by way of the circulation of progress reports, management reports and management accounts. Management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. At least two supervisory visits each year are undertaken to the overseas operations by the executive director and other directors make periodic visits to those operations. Reports of such visits are circulated to the board and reviewed by the board at the regular board meetings.

Going concern basis

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

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration set out in the Combined Code on Corporate Governance (the "Code"). As required by the Act, a resolution to approve the report will be proposed at the annual general meeting at which financial statements will be approved.

The Act requires the auditors to report to the company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The remuneration committee

The company has established a remuneration committee. From the beginning of the year to 3 September 2007 the committee comprised Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. From 3 September 2007 the committee comprised Mr J M Green-Armytage (chairman), Mr D H R Killick and Mr R M Robinow. Any matter concerning Mr Robinow is discussed without Mr Robinow being present.

The membership of the remuneration committee in 2006, when the directors' remuneration for 2007 was considered, was the same as in the period to 3 September 2007.

Remuneration policy

The committee sets the remuneration and benefits of the chairman and the managing director. The latter is currently the only executive director but the committee would set the remuneration and benefits of any other executive directors who might in future be appointed. In setting remuneration and benefits, it considers the achievement of each individual in attaining the objectives set for that individual (including objectives relating to corporate performance on environmental and social matters and corporate governance), and the responsibilities assumed by the individual and, where the role is part time, the time commitment involved. It draws on data of the remuneration of others performing similar functions in similarly sized organisations, but does not use independent consultants.

The key objective of the remuneration policy (which applies for 2008 and subsequent years) is to attract, motivate, retain and fairly reward executive directors of a high calibre, while ensuring that the remuneration of each individual executive director is consistent with the best interests of the company and its shareholders. In framing its policy on performance related remuneration (which is payable only to executive directors) the committee follows the provisions of schedule A to the Code.

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

Basis of remuneration

The policy on remuneration of executive directors is that basic remuneration of each executive director should comprise an annual salary, part of which is pensionable, and certain benefits-in-kind, principally a company car. In

addition an executive director should be paid non-pensionable performance related bonuses. These are to be awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant year and the contribution to that performance that each director is assessed by the committee as having made. Bonuses should not normally exceed 50 per cent of salary and are paid in cash. There is no separate pension scheme for executive directors and the only current executive director (the managing director) is a member of the R.E.A. Pension Scheme.

Service contracts

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

The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2007 the unexpired term remained as six months. There are no provisions for compensation for early termination save that Mr Oakley would be entitled to a payment in lieu of notice if due notice had not been given.

Non-executive directors

The remuneration of non-executive directors other than the chairman is determined by the board within the limits set by the articles of association, no director taking part in the determination of his own remuneration. The level of remuneration is determined having regard to that paid by comparable organisations.

Performance graph

A performance graph is shown in the "Key statistics" section of this annual report. This compares the performance of the company's ordinary shares (measured by total shareholder return) with that of the FTSE all share index for the period from January 2003 to December 2007. This index has been selected as there is no index available that is specific to the activities of the company.

Long term incentive plan

A long term incentive plan (the "plan") was introduced in 2007. It is designed to provide an incentive, linked to the increase in value of ordinary shares in the company, to a small number of key senior executives in Indonesia with a view to their participating over the long term in value created for the group. No director may participate. The plan period commenced on 1 January 2007 and ends on 31 December 2010 (the "performance period"). Awards made under the plan will become exercisable depending on the extent to which targets are achieved over the performance period. An award may be exercised in whole or part at any time from 1 January 2011 until 31 December 2016.

Awards are made over a notional number of ordinary shares of the company. At the end of the performance period, the number of notional ordinary shares over which an award may be exercised will be calculated. On exercising an award, the participant will receive a cash amount for each ordinary share over which the award is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over 433.5p, being the market price of an ordinary share on 1 January 2007. The number of ordinary shares over which an award may be exercised depends on three key performance targets and on continued employment.

The three performance targets relate to total shareholder return, cost per tonne of crude palm oil produced and annual planting rate achieved, in each case measured on a cumulative basis over the performance period. Each performance target governs the vesting of one third of each award and for each performance target there are threshold, target and maximum levels of performance. The number of notional ordinary shares over which awards may be exercised following the end of the performance period will depend on the level of performance achieved. The remuneration committee has discretion to adjust targets if it considers that actual performance warrants this.

The exercise of an award is dependent on continued employment with the group. If a participant ceases employment with the group before the end of the performance period, his award will lapse unless he leaves by reason of death, injury, disability, redundancy or retirement or the remuneration committee exercises a discretion to decide that his award should not lapse. Where the award does not lapse, it will become exercisable, and remain exercisable for a period of twelve months, from the date that the affected participant ceases employment with the group (the "cessation date"), on a basis that reflects achievement of performance targets up to the end of the financial year last ended before the cessation date (as determined by the remuneration committee) and time apportioned for the elapsed portion of the performance period up to the cessation date expressed as a fraction of the full performance period. If a participant leaves after the end of the performance period, the participant may exercise an award within six months of leaving.

Awards will also be exercisable for a period of one month following a change in control of the company as a result of a takeover offer or similar corporate event. In that case, the numbers of ordinary shares over which awards may be exercised will be on a basis that reflects achievement of performance targets up to the date of change of control or other relevant event (as determined by the remuneration committee) and time apportioned for the elapsed portion of the performance period up to that date expressed as a fraction of the full performance period.

At 31 December 2007, the total number of notional ordinary shares over which awards had been made amounted to 195,000. On the basis of the market price of the ordinary shares on 31 December 2007 of 544p per share, the total value to participants of the awards made would, if such awards had vested in full, have amounted at that date to £215,475.

Audited information

Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2007 (with comparative totals for 2006):

	Salary and fees	Other*	2007 Total	2006 Total
	£'000	£'000	£'000	£'000
R M Robinow (chairman)	104	10	114	16
J C Oakley	237	63	300	274
J M Green-Armytage	-	-	-	-
J R M Keatley	13	-	13	13
D H R Killick	13	-	13	6
L E C Letts	-	-	-	3
C L Lim	-	-	-	-
	367	73	440	312

* comprises benefits and, in the case of Mr Oakley, a bonus of £40,000.

Mr Robinow, Mr Green-Armytage, Mr Letts and Mr Lim were interested in service arrangements with four companies whereby aggregate amounts were payable to those companies for 2007 of £60,000 (2006 £258,000) in respect of Mr Robinow, £13,000 (2006 £13,000) in respect of Mr Green-Armytage, £13,000 (2006 £13,000) in respect of Mr Letts and £13,000 (2006 £13,000) in respect of Mr Lim.

Directors' remuneration report continued

In addition to the benefits and bonus shown under "Other" above, Mr Oakley received a benefit in kind relating to the tax liability arising on a gain on exercise of share options in 2006 estimated at £163,000. It has been agreed with Mr Oakley that he will effectively refund this amount by commensurate reduction in future non pensionable remuneration to which he would otherwise become entitled.

Director's pension entitlement - Mr J C Oakley

Mr Oakley (who was aged 59 at 31 December 2007) is an ordinary member of the R.E.A. Pension Scheme which is a defined benefit scheme of which details are shown in note 35 to the consolidated financial statements. Pensionable earnings are calculated on part of the annual salary only. Details of the accrued pension are set out below.

	£
Accrued annual pension at beginning of year	75,694
Increase in accrued annual pension during year	6,062
Accrued annual pension at end of year	81,756
Pension transfer value at beginning of year	1,297,617
Contributions made by the director	9,800
Increase in pension transfer value during year*	399,328
Pension transfer value at end of year	1,706,745

*net of director's contributions

The increase during the year in excess of inflation in accrued annual pension was £3,001 and in pension transfer value was £356,634.

Share options - Mr J C Oakley

Pursuant to an option agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each at a price of 45p per share payable in cash. There were no performance conditions attached to the grant of this option as the directors did not consider, in the particular circumstances in which the option was granted, that it would be appropriate to impose any conditions and the option was based on the full market value of the ordinary shares at the date of the grant. The grant of the option to Mr Oakley on this basis was approved by special resolution of the company prior to execution of the option agreement.

The number of shares the subject of the option and the option subscription price have been amended from time to time to take account of share issues since the option was granted. As a result, at the beginning and end of the year the number of ordinary shares the subject of the option was 828,113 and the exercise price was 44.8289p per share and, at the date of this report, the number of ordinary shares so subject was 833,534 and the exercise price was 44.1286p per share. The option expires on 21 May 2012.

The market price of the ordinary shares at 31 December 2007 was 544p and the range during the year was 375p to 610p.

No other options have been granted by the company.

Approved by the board on 24 April 2008

RICHARD M ROBINOW

Chairman

Directors' responsibilities

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

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

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

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

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (including United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

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

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

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

Auditors' report (group)

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

We have audited the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of movements in equity, the consolidated cash flow statement, the accounting policies and the related notes 1 to 38. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2007

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

Respective responsibilities of directors and auditors

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

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

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

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

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the group financial statements.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London, England
24 April 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 $'000	2006 $'000
Revenue	2	57,600	33,095
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	4	5,578	(54)
Cost of sales		(14,875)	(14,938)
Gross profit		48,303	18,103
Net gain arising from changes in fair value of biological assets	13	8,030	8,700
Other operating income		6	9
Distribution costs		(1,028)	(450)
Administrative expenses		(5,925)	(5,590)
Operating profit		49,386	20,772
Investment revenues	7	1,641	640
Finance costs	8	(4,017)	(1,650)
Profit before tax	5	47,010	19,762
Tax	9	(15,013)	(5,898)
Profit for the year		31,997	13,864
Attributable to:			
Ordinary shareholders		29,453	11,546
Preference shareholders	10	2,266	1,795
Minority interests		278	523
		31,997	13,864
Earnings per 25p ordinary share	11		
Basic		91.9 cents	40.0 cents
Diluted		89.6 cents	37.8 cents

All operations in both years are continuing.

Consolidated balance sheet

as at 31 December 2007

	Note	2007 $'000	2006 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	166,347	143,496
Property, plant and equipment	14	41,772	28,645
Prepaid operating lease rentals	15	8,823	5,180
Deferred tax assets	24	5,817	10,672
Non-current receivables		1,376	2,236
Total non-current assets		236,713	202,807
Current assets			
Inventories	17	13,040	5,096
Trade and other receivables	18	3,301	3,963
Cash and cash equivalents	19	34,216	37,266
Total current assets		50,557	46,325
Total assets		287,270	249,132
Current liabilities			
Trade and other payables	27	(7,070)	(8,438)
Current tax liabilities		(2,935)	(220)
Obligations under finance leases	25	(111)	(301)
Bank loans	21	(3,000)	(21,500)
Other loans and payables	26	(414)	(396)
Total current liabilities		(13,530)	(30,855)
Non-current liabilities			
Bank loans	21	(12,917)	(19,250)
Sterling notes	22	(40,713)	(27,409)
US dollar notes	23	(29,389)	(29,307)
Deferred tax liabilities	24	(37,166)	(33,244)
Obligations under finance leases	25	(127)	(32)
Other loans and payables	26	(4,795)	(3,514)
Total non-current liabilities		(125,107)	(112,756)
Total liabilities		(138,637)	(143,611)
Net assets		148,633	105,521
Equity			
Share capital	28	38,299	33,372
Share premium account	29	29,787	19,506
Translation reserve	30	(9,822)	(8,890)
Special reserve (non-distributable)	29	–	3,254
Retained earnings	31	89,492	57,679
		147,756	104,921
Minority interests	32	877	600
Total equity		148,633	105,521

Approved by the board on 24 April 2008 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	2007 $'000	2006 $'000
Exchange translation differences	(1,460)	769
Tax on items taken directly to equity	528	417
Net (loss) / gain recognised directly in equity	(932)	1,186
Profit for the year	31,997	13,864
Share based payment - deferred tax credit	385	1,798
Total recognised income and expense for the year	31,450	16,848
Attributable to:		
Ordinary shareholders	28,907	14,528
Preference shareholders	2,266	1,795
Minority interests	277	525
	31,450	16,848

Reconciliation of movements in equity

for the year ended 31 December 2007

	2007 $'000	2006 $'000
Total recognised income and expense for the year	31,450	16,848
Issue of new ordinary shares by way of placings and open offer (net of costs)	13,027	18,391
Issue of new preference shares by way of placings (net of costs)	2,180	5,493
Issue of new ordinary shares on exercise of share options	–	150
Issue of new ordinary shares on exercise of warrants	–	1,639
Subscription of new shares by minority interest in subsidiaries	–	215
Dividends to preference shareholders	(2,266)	(1,795)
Dividends to ordinary shareholders	(1,279)	–
Liquidation distribution to preference shareholders in a subsidiary	–	(4,239)
Acquisition of minority interest in a subsidiary	–	(7,090)
	43,112	29,612
Equity at beginning of year	105,521	75,909
Equity at end of year	148,633	105,521

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	2007 $'000	2006 $'000
Net cash from operating activities	33	28,176	7,108
Investing activities			
Interest received		1,641	640
Proceeds on disposal of property, plant and equipment		200	–
Purchases of property, plant and equipment		(15,010)	(12,036)
Expenditure on biological assets		(14,820)	(18,775)
Expenditure on prepaid operating lease rentals		(3,787)	(2,862)
Costs incurred in acquisition of minority interest in subsidiary		–	(370)
Net cash used in investing activities		(31,776)	(33,403)
Financing activities			
Preference dividends paid		(2,266)	(1,795)
Ordinary dividends paid		(1,279)	–
Repayment of borrowings		(25,833)	(3,750)
Repayment of obligations under finance leases		(268)	(680)
Proceeds of issue of new share capital in subsidiaries to minority shareholders		–	215
Proceeds of issue of preference share capital less expenses		2,180	5,493
Proceeds of issue of ordinary share capital less expenses		13,027	18,406
Proceeds of issue of ordinary share capital on exercise of warrants		–	1,639
Liquidation distribution to preference shareholders in a subsidiary		–	(5,692)
Issue of US dollar notes, net of expenses		–	5,394
Issue of sterling notes, net of expenses		13,438	27,804
New bank borrowings drawn		1,000	6,500
Net cash from financing activities		(1)	53,534
Cash and cash equivalents			
Net (decrease) / increase in cash and cash equivalents	34	(3,601)	27,239
Cash and cash equivalents at beginning of year		37,266	8,612
Effect of exchange rate changes		551	1,415
Cash and cash equivalents at end of year		34,216	37,266

Accounting policies (group)

General information

R.E.A. Holdings plc is a company incorporated in the United Kingdom under the Companies Act 1985.

Basis of accounting

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use by the European Union as at the date of authorisation of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

Functional and presentation currency

The directors have decided to change the currency in which the consolidated financial statements of the group are presented from the pound sterling to the US dollar, which is considered to be the currency of the primary economic environment in which the group operates. References to "$" or "dollar" in these financial statements are to the lawful currency of the United States of America.

The 2006 comparative figures have been restated. The consolidated net assets for 2006 have been translated at rates of exchange ruling at 31 December 2006. The total consolidated equity of the group as at 1 January 2006 has been translated at rates of exchange ruling on 31 December 2005. Transactions in 2006 in foreign currency have been recorded in compliance with the policy detailed in "Foreign currencies" below.

Adoption of new and revised standards

In the current year the group has adopted IFRS 7 "Financial instruments: disclosures" and the related amendments to IAS 1 "Presentation of financial statements" which are effective for reporting periods beginning on or after 1 January 2007. Adoption of these has resulted in expansion of the disclosures regarding the group's financial instruments and management of capital in note 20. Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and brought into effect for the latest reporting period have not led to any changes in the group's accounting policies.

At the date of authorisation of the consolidated financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IAS 23 (Revised): "Borrowing costs"
- IFRIC 13: "Customer loyalty programmes"
- IFRS 8: "Operating segments"
- IFRIC 11: "IFRS 2-group and treasury share transactions"
- IFRIC 12: "Service concession arrangements"
- IFRIC 14: "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"

The directors anticipate that when the relevant standards and interpretations come into effect for periods commencing on or after 1 January 2008 their adoption will have no material impact on the consolidated financial statements, save for additional disclosures which may be required.

Basis of consolidation

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

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

On acquisition, any excess of the fair value of the consideration given over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency in

consideration given against the fair value of the identifiable net assets acquired is credited to profit or loss in the consolidated income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

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

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

Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable (which is the rate that exactly discounts estimated future cash receipts, through the expected life of the financial asset, to that asset's net carrying amount). Dividend income is recognised when the shareholders' rights to receive payment have been established.

Leasing

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of other items that are subject to retranslation, are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities, including foreign currency loans, which, to the extent that they relate to investment in overseas operations or hedge the group's investment in such operations, are recognised directly in equity.

For consolidation purposes, the assets and liabilities of any group entity with a functional currency other than the US dollar are translated at the exchange rate at the balance sheet date. Income and expenses are translated at the average rate for the period unless exchange rates fluctuate significantly. Exchange differences arising are classified as equity and transferred to the group's translation reserve. Such exchange differences are recognised as income or expenses in the period in which the entity is sold.

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

Borrowing costs

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

Operating profit

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

Retirement benefit costs

For defined benefit retirement schemes, the estimated regular cost of providing for the benefits is calculated so that it represents a substantially level percentage of current and future pensionable payroll and is charged as an expense as it is incurred.

Amounts to recover actuarial losses, which are assessed at each valuation, are payable over a recovery period agreed with the scheme trustees. Provision is made for the present value of future amounts payable by the group to cover its share of such losses. The provision is reassessed at each accounting date, with the difference on reassessment being charged or credited to the consolidated income statement in addition to the adjusted regular cost for the period.

Taxation

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

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

Biological assets

Biological assets comprise oil palm trees and nurseries, in the former case from initial preparation of land and planting of seedlings through to maturity and the entire productive life of the trees and in the latter case from planting of seed through to field transplanting of seedlings. Biological assets do not include the land upon which the trees and nurseries are planted, or the buildings, equipment, infrastructure and other facilities used in the upkeep of the planted areas and harvesting of crops. Up to 31 December 2006 biological assets included plantation infrastructure, which includes such assets as roads, bridges and culverts. With effect from 1 January 2007 new expenditure on these assets is included in property, plant and equipment. Prior year comparatives have not been restated in respect of this change as the effect is not considered material.

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

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

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

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

Property, plant and equipment

All property, plant and equipment (including, with effect from 1 January 2007, additions to plantation infrastructure) is carried at original cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings - 20 years; plant and machinery - 5 to 16 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the terms of the relevant leases. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Prepaid operating lease rentals

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

Impairment of tangible and intangible assets excluding goodwill

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-

generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

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

Recognition and derecognition of financial instruments

Financial assets and liabilities are recognised in the group's financial statements when the group becomes a party to the contractual provisions of the relative constituent instruments. Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or if the group transfers substantially all the risks and rewards of ownership to another party. Financial liabilities are derecognised when the group's obligations are discharged, cancelled or have expired.

Non-derivative financial assets

The group's non-derivative financial assets comprise loans and receivables, and cash and cash equivalents. The group does not hold any financial assets designated as held at 'fair value through profit and loss' ("FVTPL"), or as 'held-to-maturity' or 'available-for-sale' financial assets.

Loans and receivables

Trade receivables, loans and other receivables in respect of which payments are fixed or determinable and which are not quoted in an active market are classified as loans and receivables. All loans and receivables held by the group are non interest bearing and are stated at their nominal amount, as reduced by appropriate allowances for irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and, being subject to an insignificant risk of changes in value, are stated at their nominal amounts.

Non-derivative financial liabilities

The group's non-derivative financial liabilities of the group comprise note issues, bank borrowings, finance leases and trade payables. The group does not hold any financial liabilities classified as held for trading or designated as held at FVTPL.

Note issues, bank borrowings and finance leases

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

Trade payables

All trade payables owed by the group are non interest bearing and are stated at their nominal value.

Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk; further details are disclosed in note 20. Derivatives are initially recognised at fair value at the date of the contract and remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised immediately in profit or loss unless the derivative is designated and qualifies as a hedging instrument (either as a cash flow hedge or a fair value hedge), in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and the derivative is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives which are designated and qualify as cash flow hedges are deferred in equity to the extent attributable to the components of the derivatives that are effective hedges. Other gains or losses arising are recognised immediately in profit or loss, and are included as 'other gains and losses' in the consolidated income statement. Hedge accounting is discontinued when the group revokes the hedging relationship or the hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at discontinuance remains in equity.

Fair value hedges

The group does not hold any derivatives designated and qualifying as fair value hedges.

Equity instruments

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

Share-based payments

The group has applied the requirements of IFRS 2 "Share-based payment" which contain transitional provisions which provide certain exemptions for grants of equity instruments prior to 7 November 2002.

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are set out in the "Accounting policies (group)" section of this annual report, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual values of assets and amounts of liabilities may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Biological assets

The method by which the directors have determined the fair value of the group's biological assets is described in "Accounting policies (group)" above. Because of the inherent uncertainty associated with such fair valuation methodology and in particular the volatility of prices for the group's agricultural produce and the absence of a liquid market for oil palm plantations, the carrying value of the biological assets may differ from their realisable value (see note 13).

Derivatives

As described in note 20, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for the specific features of the instruments.

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the group's liability to income tax both current and deferred having regard to the uncertainties relating to the availability of tax losses and to the future periods in which timing differences are likely to reverse.

2. Revenue

	2007 $'000	2006 $'000
Sales of goods	57,581	32,891
Revenue from services	19	204
	57,600	33,095
Other operating income	6	9
Investment income	1,641	640
Total revenue	59,247	33,744

The crop of oil palm fresh fruit bunches for 2007 amounted to 393,217 tonnes (2006 - 334,076 tonnes). The fair value of the crop of fresh fruit bunches was $39,269,000 (2006: $18,916,000), based on the price formula determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

3. Segment information

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

	2007 $'m	2006 $'m
Sales by geographical destination:		
United Kingdom and Continental Europe	–	0.2
Indonesia	28.1	25.3
Rest of Asia	29.5	7.6
	57.6	33.1
Carrying amount of segment net assets by geographical area of asset location:		
United Kingdom and Continental Europe	38.2	26.5
Indonesia	110.4	79.0
	148.6	105.5
Additions to property, plant and equipment by geographical area of asset location:		
United Kingdom and Continental Europe	0.4	–
Indonesia	14.8	12.0
	15.2	12.0

4. Agricultural produce inventory movement

The net gain / (loss) arising from changes in fair value of agricultural produce inventory represents the movement in the fair value of that inventory less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

5. Profit before tax

	2007 $'000	2006 $'000
Profit before tax has been arrived at after charging / (crediting):		
Net foreign exchange gains	(232)	(935)
Movement in inventories (at historic cost)	(2,161)	465
Depreciation of property, plant and equipment	1,846	1,569
Amortisation of prepaid operating lease rentals	144	92

The amount payable to Deloitte & Touche LLP for the audit of the company's financial statements was $137,000 (2006: $169,000). Amounts payable to Deloitte & Touche LLP for the audit of accounts of associates of the company pursuant to legislation were $10,000 (2006: $7,000).

Amounts payable to Deloitte & Touche LLP for other services pursuant to legislation were $48,000 (2006: $653,000). These have been added to the capitalised costs of the relevant transactions and relate wholly to corporate finance work.

Notes to the consolidated financial statements continued

5. Profit before tax - continued

	2007 $'000	2006 $'000
Earnings before interest, tax, depreciation and amortisation and net biological gain:		
Operating profit	49,386	20,772
Depreciation and amortisation	1,990	1,661
Net biological gain	(8,030)	(8,700)
	43,346	13,733

6. Staff costs, including directors

	2007 Number	2006 Number
Average number of employees (including executive directors):		
Agricultural - permanent	3,059	2,849
Agricultural - temporary	2,488	1,042
Head office	7	6
	5,554	3,897

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	11,869	7,505
Social security costs	598	1,207
Pension costs	707	382
	13,174	9,094

7. Investment revenues

	2007 $'000	2006 $'000
Interest on bank deposits	1,641	640
	1,641	640

8. Finance costs

	2007 $'000	2006 $'000
Interest on bank loans and overdrafts	1,916	3,799
Interest on US dollar notes	2,360	2,011
Interest on sterling notes	4,443	194
Interest on other loans	–	64
Interest on obligations under finance leases	23	62
	8,742	6,130
Amount included as additions to biological assets	(5,164)	(3,644)
Amount capitalised on acquisition	–	(107)
	3,578	2,379
Other finance charges	439	377
Exchange gain on repayment of preference shares held by minority shareholders in a subsidiary	–	(1,106)
	4,017	1,650

8. Finance costs - continued

Amount included as additions to biological assets arose on the general pool of borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 43.7 per cent (2006 - 44.7 per cent).

9. Tax

	2007 $'000	2006 $'000
Current tax:		
UK corporation tax	–	–
Foreign tax	5,318	222
Total current tax	5,318	222
Deferred tax:		
Current year	9,466	5,676
Attributable to a decrease in the rate of tax	229	–
Total deferred tax	9,695	5,676
Total tax	15,013	5,898

Taxation is provided at the rates prevailing for the relevant jurisdiction, which for Indonesia is 30 per cent (2006: 30 per cent). For the United Kingdom, the taxation provision reflects the proposed reduction in the corporation tax rate from 30 per cent to 28 per cent for 2008/09, the effect of which is also disclosed below and in note 24. The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 $'000	2006 $'000
Profit before tax	47,010	19,762
Tax at the standard rate	14,103	5,929
Tax effect of the following items:		
Expenses not deductible in determining taxable profit	161	270
Deferred tax asset not recognised	–	(87)
Non taxable income	(10)	(688)
Overseas withholding taxes, net of relief	541	474
Tax effect of unrelieved tax losses not recognised for deferred tax	6	–
Tax effect of change in rate on UK net deferred tax asset	229	–
Other	(17)	–
Tax expense at effective tax rate for the year	15,013	5,898

10. Dividends

	2007 $'000	2006 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	2,266	1,795
Ordinary dividends	1,279	–
	3,545	1,795

10. Dividends - continued

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2007 was paid on 25 January 2008. In accordance with IAS10 "Events after the balance sheet date" this dividend has not been included in the 2007 financial statements.

11. Earnings per share

	2007 $'000	2006 $'000
Earnings for the purpose of basic and diluted earnings per share *	29,453	11,546

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	32,044	28,857
Effect of dilutive potential ordinary shares	837	1,666
Weighted average number of ordinary shares for the purpose of diluted earnings per share	32,881	30,523

12. Goodwill on acquisition of minority interest in subsidiary

	$'000
Beginning of year	12,578
End of year	12,578

The goodwill arose from the acquisition by the company on 23 January 2006 of a 12.3 per cent minority interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations ("REA Kaltim"), for a consideration comprising the issue of $19 million nominal of 7.5 per cent dollar notes 2012/14. The goodwill of $12.6 million at the end of the year is considered by the directors to be fully supported by the long-term prospects for REA Kaltim.

13. Biological assets

	2007 $'000	2006 $'000
Beginning of year	143,496	117,289
Reclassification of expenditure in prior years between land, plantations and other non-current assets	–	(1,303)
Additions to planted area and costs to maturity	14,821	18,810
Net biological gain	8,030	8,700
End of year	166,347	143,496
Net biological gain comprises:		
Gain arising from movement in fair value attributable to physical changes	8,030	7,120
Gain arising from movement in fair value attributable to price changes	–	469
Gain in relation to prior year reclassification	–	1,111
	8,030	8,700

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". The valuation assumed a discount rate of 17.5 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies (2006: 17.5 per cent for all group companies) and a twenty year average CPO price of $414 per tonne, net of Indonesian export duties, FOB Samarinda (2006 - twenty year average of $397 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

13. Biological assets - continued

The valuation of the group's biological assets would have been reduced by $10,310,000 (2006: $6,949,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $10,915,000 (2006: $9,246,000) if the discount rates assumed had been increased by 1 per cent and by $20,595,000 (2006: $17,340,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by $5.

As a general rule, all palm products produced by the group are sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At the balance sheet date, the group had outstanding forward sales of crude palm oil at the rate of 2,000 tonnes per month for the two year period to 31 December 2009 at prices equivalent to $620 per tonne, CIF Rotterdam, for the period January to June 2008 (inclusive), $870 per tonne for the period July to December 2008 (inclusive) and $860 per tonne for the period January to December 2009 (inclusive) (2006: no forward sales).

At the balance sheet date, biological assets of $141,571,000 (2006 - $128,784,000) had been charged as security for bank loans (see note 21) but there were otherwise no restrictions on titles to the biological assets (2006 – none). Expenditure approved by the directors for the development of immature areas in 2008 amounts to $28,000,000 (prior year - $18,555,000).

14. Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2006	3,759	16,089	4,186	24,034
Reclassifications	43	7	(54)	(4)
Additions	99	863	11,074	12,036
Exchange differences	–	56	–	56
Disposals	–	(30)	–	(30)
Transfers	1,806	241	(2,047)	–
At 31 December 2006	5,707	17,226	13,159	36,092
Additions	8,123	1,392	5,665	15,180
Exchange differences	–	2	–	2
Disposals	(6)	(460)	–	(466)
Transfers	4,178	11,430	(15,608)	–
At 31 December 2007	18,002	29,590	3,216	50,808
Accumulated depreciation:				
At 1 January 2006	684	5,179	–	5,863
Charge for year	190	1,379	–	1,569
Exchange differences	–	42	–	42
Eliminated on disposals	–	(27)	–	(27)
At 31 December 2006	874	6,573	–	7,447
Charge for year	295	1,551	–	1,846
Exchange differences	–	3	–	3
Eliminated on disposals	(2)	(258)	–	(260)
At 31 December 2007	1,167	7,869	–	9,036

14. Property, plant and equipment - continued

	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Carrying amount:				
End of year	16,835	21,721	3,216	41,772
Beginning of year	4,833	10,653	13,159	28,645

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $413,000 (2006 - $1,119,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $4,093,000 (2006 - $231,000).

15. Prepaid operating lease rentals

	2007 $'000	2006 $'000
Cost:		
Beginning of year	5,401	1,249
Reclassification of expenditure in prior years between land, plantations and other non-current assets	–	1,290
Additions	3,787	2,862
End of year	9,188	5,401
Accumulated depreciation:		
Beginning of year	221	113
Relating to the reclassification of expenditure in prior years	–	16
Charge for year	144	92
End of year	365	221
Carrying amount:		
End of year	8,823	5,180
Beginning of year	5,180	1,136

Land title certificates have been obtained in respect of areas covering 35,216 hectares.

16. Subsidiaries

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

Certain borrowings incurred by PT REA Kaltim Plantations ("REA Kaltim") limit the payment of dividends by REA Kaltim to a proportion of REA Kaltim's annual profit after tax.

17. Inventories

	2007 $'000	2006 $'000
Agricultural produce	8,603	935
Engineering and other operating inventory	4,437	4,161
	13,040	5,096

The fair value of the agricultural produce as at 31 December 2007 has taken into account certain outstanding forward sales contracts for delivery in 2008 at a CIF Rotterdam price of $620 per tonne of crude palm oil (2006: no forward sales contracts) as disclosed in note 13.

18. Trade and other receivables

	2007 $'000	2007 $'000
Due from sale of goods	444	2,039
Prepayments and advance payments	853	476
Advance payment of taxation	1,149	–
Deposits and other receivables	855	1,448
	3,301	3,963

Sales of goods are normally made on a cash against documents basis with an average credit period of 6 days (2006 - 25 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

19. Cash and cash equivalents

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

20. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 21 to 23, cash and cash equivalents and equity attributable to shareholders of the parent, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 28 to 31. The group is not subject to externally imposed capital requirements.

The directors' policy in regard to the capital structure of the group is to seek to enhance returns to holders of the company's ordinary shares by meeting a proportion of the group's funding needs with prior charge capital and to constitute that capital as a mix of preference share capital and borrowings from banks and development institutions and from the public debt market, in proportions which suit, and as respects borrowings having a maturity profile, which suits the assets that such capital is financing. In so doing, the directors regard preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

Net debt to equity ratio

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication, they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. The target for 31 December 2008 is 60 per cent (2007: 60 per cent). Net debt, equity and the net debt to equity ratio at the balance sheet date were as follows:

20. Financial instruments - continued

	2007 $'000	2006 $'000
Debt *	86,257	97,798
Cash and cash equivalents	(34,216)	(37,266)
Net debt	52,041	60,532

* being long and short term borrowings as detailed in the table below under "Fair value of financial instruments".

Equity	148,633	105,521
Net debt to equity ratio	35.0%	57.4%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in the "Accounting policies (group)" section of this annual report.

Categories of financial instruments

Non-derivative financial assets as at 31 December 2007 comprised loans and receivables and cash and cash equivalents amounting to $35,953,000 (2006: $40,724,000).

Non-derivative financial liabilities as at 31 December 2007 comprised liabilities at amortised cost amounting to $93,032,000 (2006: $106,215,000).

Derivative financial instruments at 31 December 2007 comprised instruments in designated hedge accounting relationships at fair value amounting to $1,268,000 (2006: nil).

Financial risk management objectives

The group's head office provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the group through internal reports which permit the degree and magnitude of such risks to be assessed. These risks include market risk, credit risk and liquidity risk.

The group seeks to reduce risk by using, where appropriate, derivative financial instruments to hedge risk exposures. The use of derivative financial instruments is governed by group policies set by the board of directors of the company. The board also sets policies on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The financial market risks to which the group is primarily exposed are those arising from changes in interest rates and foreign currency exchange rates.

20. Financial instruments - continued

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

Interest is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate ("SIBOR") (2006: 4 per cent), and on the Indonesian working capital facility at 3.5 per cent over SIBOR (2006: 3.5 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2007 (other than the cross currency interest rate swap) which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) increase of approximately $183,000 (2006: pre-tax profit and equity decrease of $34,000).

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

At the balance sheet date, the group had non US dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $400,000 on the net sterling denominated, non-derivative monetary items (excluding the sterling notes which are hedged) (2006: loss of $108,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have had a negligible effect as respects the net Indonesian rupiah denominated, non-derivative monetary items (2006: negligible).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. Deposits are made by the group only with banks with high credit ratings. Substantially all sales of goods are made against documents. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2007 and 2006 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors of the company, which has established an appropriate framework for the management of the group's short, medium and long-term funding and liquidity requirements. Within this framework, the board continuously monitors forecast and actual cash flows and endeavours to maintain adequate liquidity in the form of cash reserves and borrowing facilities while matching the maturity profiles of financial assets and liabilities. Undrawn facilities available to the group at balance sheet date are disclosed in note 21.

20. Financial instruments - continued

The board reviews the cash forecasting models for the operations of the plantations and compares these with the forecast outflows for debt obligations and projected capital expenditure programmes for the plantations, applying sensitivities to take into account perceived major uncertainties. In their review, the directors place the greatest emphasis on the cash flow of the first two years.

The following tables detail the contractual maturity of the group's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the group's financial liabilities based on the earliest dates on which the group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

2007	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Totals $'000
Bank loans	8.4%	4,167	11,344	2,181	17,692
US dollar notes	8.0%	2,250	2,250	39,000	43,500
Sterling notes	10.4%	4,096	4,034	69,908	78,038
Trade and other payables		3,989	–	–	3,989
Obligations under finance leases	10.0%	127	143	–	270
		14,629	17,771	111,089	143,489

2006	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Totals $'000
Bank loans	9.0%	23,526	7,088	14,047	44,661
US dollar notes	8.0%	2,250	2,250	41,250	45,750
Sterling notes	10.4%	2,864	2,793	50,415	56,072
Trade and other payables		5,732	–	–	5,732
Obligations under finance leases	10.0%	313	33	–	346
		34,685	12,164	105,712	152,561

At 31 December 2007, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $34,216,000 (2006: $37,266,000) carrying a weighted average interest rate of 4.5 per cent (2006: 3.8 per cent) all having a maturity of under one year.

The following table details the contractual maturity of the group's derivative financial liabilities. These arise under the cross currency interest rate swap ("CCIRS") described under "Fair value of financial instruments below". The cash flows are settled gross and, therefore, the table takes no account of sterling receipts under the CCIRS.

	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Totals $'000
Amount payable - 2007	4,570	4,596	70,474	79,640
Amount payable - 2006	–	–	–	–

20. Financial instruments - continued

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade creditors, as at the balance sheet date.

	2007 Book value $'000	2007 Fair value $'000	2006 Book value $'000	2006 Fair value $'000
Cash and deposits +	34,216	34,216	37,266	37,266
Debt - within one year +	(3,000)	(3,000)	(21,500)	(21,500)
Debt - after more than one year +	(12,917)	(12,917)	(19,250)	(19,250)
Finance leases o	(238)	(238)	(333)	(333)
US dollar notes o	(29,389)	(28,050)	(29,307)	(27,001)
Sterling notes o	(40,713)	(42,248)	(27,408)	(29,400)
Net debt	(52,041)	(52,237)	(60,532)	(60,218)
Cross currency interest rate swap o	(1,268)	(1,268)	–	–
	(53,309)	(53,305)	(60,532)	(60,218)

+ bearing interest at floating rates
o bearing interest at fixed rates

The fair values of cash and deposits and bank debt approximate their carrying values since these carry interest at current market rates. The fair value of the US dollar notes is based on the latest price at which the notes were traded prior to the balance sheet date. The fair value of the sterling notes have been estimated by the directors, based on a yield comparision with UK government debt issues.

At 31 December 2007 the group had outstanding a contract for the forward purchase of £22 million and sale of $42.9 million maturing in 2015 (2006: nil) pursuant to the cross currency interest rate swap ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes"). During the year, the hedge was effective in hedging the related sterling interest payment obligations on the sterling notes up to and including 31 December 2015 and in providing the £22 million required to meet the principal repayment obligations.

The fair value of the CCIRS has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2007 at fair value resulted in a loss of $1,268,000. A 50 basis points movement in the spread between the assumed yield curves for pounds sterling and the US dollar would increase or decrease the valuation by approximately $600,000.

21. Bank loans

	2007 $'000	2006 $'000
Bank loans	15,917	40,750
The bank loans are repayable as follows:		
On demand or within one year	3,000	21,500
Between one and two years	10,750	5,750
Between three and five years	2,167	13,500
After five years	–	–
	15,917	40,750

21. Bank loans - continued

	2007 $'000	2006 $'000
Amount due for settlement within 12 months (shown under current liabilities)	3,000	21,500
Amount due for settlement after 12 months	12,917	19,250
	15,917	40,750

All bank loans are denominated in US dollars and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2007 was 8.4 per cent (2006: 9.0 per cent). Bank loans of $15,417,000 (2006: $37,250,000) are secured on substantially the whole of the assets and undertaking of PT REA Kaltim Plantations (amounting to $215 million - 2006: $200 million) and are the subject of an unsecured guarantee by the company. The banks are entitled to have recourse to their security on usual banking terms.

At the balance sheet date, the group had undrawn bank facilities of $7.0 million (2006: $4.0 million).

22. Sterling notes

The sterling notes comprise £22 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V.. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

The repayment obligation in respect of the sterling notes of £22 million ($43.8 million) is hedged by a forward foreign exchange contract for the purchase of £22 million and for the sale of $42.9 million and is carried in the balance sheet net of the unamortised balance of the note issuance costs.

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

23. US dollar notes

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

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

24. Deferred tax

	2007 $'000	2006 $'000
Deferred tax liabilities	37,166	33,244
Deferred tax assets	(5,817)	(10,672)
Net position	31,349	22,572

24. Deferred tax - continued

	2007 $'000	2006 $'000
Movement in the net deferred tax position during the year:		
Beginning of year	22,572	20,215
Charge to income for the year	9,466	5,674
Charge to equity for the year	(649)	(1,934)
Exchange differences	(476)	(1,383)
Effect of change in tax rate - income statement	229	–
Effect of change in tax rate - equity	207	–
End of year	31,349	22,572

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

Deferred tax liabilities	Accelerated tax depreciation $'000	Income * $'000	Exchange losses + $'000	Total $'000
At 1 January 2006	27,916	1,964	–	29,880
Charge to income for the year	2,837	500	–	3,337
Charge to equity for the year	–	–	–	–
Exchange differences	(6)	33	–	27
At 31 December 2006	30,747	2,497	–	33,244
Charge to income for the year	4,724	1,758	92	6,574
Charge to equity for the year	–	–	–	–
Transferred from assets	12	(2,738)	608	(2,118)
Exchange differences	(495)	–	11	(484)
Effect of change in tax rate - income statement	–	–	(50)	(50)
Effect of change in tax rate - equity	–	–	–	–
At 31 December 2007	34,988	1,517	661	37,166

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

Deferred tax assets	Lower tax depreciation $'000	Expenses* $'000	Tax losses $'000	Total $'000
At 1 January 2006	2	2,685	6,978	9,665
Charge to income for the year	25	902	(3,264)	(2,337)
Charge to equity for the year	–	–	1,934	1,934
Exchange differences	–	398	1,012	1,410
At 31 December 2006	27	3,985	6,660	10,672
Charge to income for the year	(10)	(1,198)	(1,684)	(2,892)
Charge to equity for the year	–	–	649	649
Transferred against liabilities	–	(1,753)	(365)	(2,118)
Exchange differences	1	(70)	61	(8)
Effect of change in tax rate - income statement	–	(60)	(219)	(279)
Effect of change in tax rate - equity	–	–	(207)	(207)
At 31 December 2007	18	904	4,895	5,817

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

24. Deferred tax - continued

At the balance sheet date, the group had unused tax losses of $17.4 million (2006 - $22.2 million) available to be applied against future profits. A deferred tax asset of $4,895,000 (2006 - $6,660,000) has been recognised in respect of these losses.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was $4,750,000 (2006 - $2,548,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The deferred tax asset in respect of tax losses assumes that losses for tax purposes incurred by the plantation companies in Indonesia may be carried forward for five years.

The proposed reduction in UK corporation tax from 30% to 28% (for 2008/2009) has reduced the net amount of UK deferred tax assets by $436,000 (2006: nil).

25. Obligations under finance leases

	2007 $'000	2006 $'000
Minimum lease payments:		
Amounts payable under finance leases		
Within one year	127	344
In the second to fifth years inclusive	143	34
	270	378
Less: Future finance charges	32	45
Present value of lease obligations	238	333
Representing:		
Amounts payable under finance leases		
Within one year	111	301
In the second to fifth years inclusive	127	32
Present value of lease obligations	238	333
Amount due for settlement within 12 months (shown under current liabilities)	111	301
Amount due for settlement after 12 months	127	32
	238	333

The group leases certain items of plant and equipment under finance leases. The average lease term is 1 to 2 years (2006 - 1 to 2 years). Interest rates are fixed at the contract rate. The average borrowing rate for the year was 10.0 per cent (2006 - 10.0 per cent). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Most lease obligations are denominated in Indonesian rupiahs. Obligations under finance leases are secured by the lessor's charge over the leased assets.

26. Other loans and payables

	2007 $'000	2006 $'000
Retirement benefit obligations	3,800	3,910
Fair value provision for cross currency interest rate swap	1,268	–
Other loans and payables	141	–
	5,209	3,910

The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	414	396
In the second year	406	388
In the third to fifth years inclusive	1,306	1,117
After five years	3,083	2,009
Amount due for settlement after 12 months	4,795	3,514
	5,209	3,910

Amounts of liabilities by currency:		
Sterling	4,485	3,283
Indonesian rupiahs	724	627
	5,209	3,910

The directors estimate that the fair value of retirement benefit obligations and of other loans and payables approximates their carrying value. The method for ascertaining the fair value of the cross currency interest rate swap is disclosed in note 20.

27. Trade and other payables

	2007 $'000	2006 $'000
Trade purchases and ongoing costs	3,331	5,173
Other tax and social security	230	397
Accruals	2,851	2,309
Other payables	658	559
	7,070	8,438

The average credit period taken on trade payables is 29 days (2006 - 59 days).

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

28. Share capital

	2007 £'000	2006 £'000
Authorised (in pounds sterling):		
14,500,000 - 9 per cent cumulative preference shares of £1 each (2006 - 14,500,000)	14,500	14,500
41,000,000 - ordinary shares of 25p each (2006 - 41,000,000)	10,250	10,250
	24,750	24,750

28. Share capital - continued

	2007 $'000	2006 $'000
Issued and fully paid (in US dollars):		
13,600,000 - 9 per cent cumulative preference shares of £1 each (2006 - 11,449,624)	24,069	19,891
32,573,856 - ordinary shares of 25p each (2006 – 31,073,856)	14,230	13,481
	38,299	33,372

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

Changes in share capital:

- on 9 May 2007, 1,500,000 ordinary shares were issued, fully paid, by way of a placing at 450p per share to Mirabaud Pereire Nominees Limited (at close of business on 30 April 2007, the day the terms of the placing were fixed, the middle market share price was 495p);
- on 5 September 2007, 1,064,581 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at £1.05 per share; and
- on 2 October 2007, 1,085,795 9 per cent cumulative preference shares were issued, credited as fully paid, at par to ordinary shareholders by way of capitalisation of share premium account.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

29. Capital reserves

	Share premium account $'000	Warrant reserve $'000	Capital redemption reserve $'000	Special reserve $'000
At 1 January 2006	4,519	1,998	5,572	–
Issue of new ordinary shares	17,498	–	–	–
Issue of new preference shares	268	–	–	–
Expenses of issue	(1,109)	–	–	–
Exercise of warrants	3,012	(1,998)	–	–
Exercise of share options	66	–	–	–
Reduction of capital	(4,748)	–	(5,572)	10,320
Transfers	–	–	–	(7,066)
At 31 December 2006	19,506	–	–	3,254
Issue of new ordinary shares	12,731	–	–	–
Issue of new preference shares	108	–	–	–
Capitalisation issue of new preference shares	(2,016)	–	–	–
Expenses of issue	(542)	–	–	–
Release of special reserve	–	–	–	(3,254)
At 31 December 2007	29,787	–	–	–

29. Capital reserves - continued

Pursuant to a reduction of capital confirmed by the High Court and effective on 17 May 2006, the company's capital redemption reserve was cancelled and the amount standing to the credit of the company's share premium account was reduced by £2,760,334 ($4,747,774); as a result the sum of £6,000,000 ($10,320,000) was credited to a special reserve. Since that date, the company has issued fresh capital of more than £1,891,550 ($3,254,000) in 2007 and of £4,108,450 ($7,066,000) in 2006 and, as permitted under the terms of the undertaking given to the High Court, has transferred an equivalent sum from special reserve to the company's profit and loss account.

30. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2006	–	(10,076)	(10,076)
Exchange difference arising on translation of overseas operations during the year	–	1,186	1,186
At 31 December 2006	–	(8,890)	(8,890)
Exchange difference arising on translation of overseas operations during the year	–	(426)	(426)
Fair value loss on cash flow hedge	(506)	–	(506)
At 31 December 2007	(506)	(9,316)	(9,822)

31. Retained earnings

	2007 $'000	2006 $'000
Beginning of year	57,679	37,269
Profit for the year	29,453	11,546
Ordinary dividend paid	(1,279)	–
Transfer from special reserve	3,254	7,066
Share based payment - deferred tax credit taken directly to equity	385	1,798
End of year	89,492	57,679

32. Minority interest

	2007 $'000	2006 $'000
Beginning of year	600	11,190
Share of profit after taxation	278	523
Proceeds of issue of new share capital in subsidiaries to minority shareholders	–	215
Liquidation distribution to preference shareholders in a subsidiary	–	(4,239)
Exchange translation differences	(1)	–
Acquisition of 12.3 per cent of issued ordinary share capital of Makassar Investments Limited	–	(7,089)
End of year	877	600

33. Reconciliation of operating profit to operating cash flows

	2007 $'000	2006 $'000
Operating profit	49,386	20,772
Depreciation of property, plant and equipment	1,846	1,569
Amortisation of prepaid operating lease rentals	144	92
Amortisation of sterling and US dollar note issue expenses	242	57
Biological gain	(8,030)	(8,700)
Loss on disposal of property, plant and equipment	6	–
Operating cash flows before movements in working capital	43,594	13,790
Increase in inventories	(8,133)	(1,415)
Decrease in receivables	1,283	1,008
Decrease in payables	(583)	(2,707)
Exchange translation differences	(1,330)	(590)
Cash generated by operations	34,831	10,086
Taxes paid	(3,165)	(222)
Interest paid	(3,490)	(2,756)
Net cash from operating activities	28,176	7,108

Additions to property, plant and equipment during the year amounting to $171,000 (2006 - $nil) were financed by new finance leases.

Cash generated by operations in 2006 of US$10,086,000 is stated after reflecting a payment of US$6,000,000 made in February 2006 as a part of a litigation settlement which was accrued as at 31 December 2005.

34. Movement in net borrowings

	2007 $'000	2006 $'000
Change in net borrowings resulting from cash flows:		
(Decrease) / increase in cash and cash equivalents	(3,601)	27,239
Decrease / (increase) in borrowings	24,833	(2,750)
	21,232	24,489
Issue of US dollar notes less amortised expenses	(94)	(5,442)
Issue of US dollar notes for the acquisition of minority interest in a subsidiary	–	(19,000)
Issue of sterling notes less amortised expenses	(13,587)	(27,813)
Lease repayments	268	680
New leases	(171)	–
	7,648	(27,086)
Currency translation differences	843	1,783
Net borrowings at beginning of year	(60,532)	(35,229)
Net borrowings at end of year	(52,041)	(60,532)

35. Pensions

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

35. Pensions - continued

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

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2005. This method was adopted in the previous valuation, as at 1 January 2003, as this was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2005 the Scheme showed an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,549,000. The technical provisions were calculated using assumptions of an annual investment return of 6.1 per cent pre-retirement and 4.7 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 2.75 per cent in respect of accruals to 31 December 2005 and 2.5 per cent thereafter. The rate of increase in the retail price index was assumed to be 2.75 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PA92 tables with short cohort improvements and that members would take the maximum cash sums permitted on retirement from April 2006. Had the scheme been valued at 31 December 2005 using the projected unit method and the same assumptions, the overall deficit would have been similar. The next actuarial valuation is due at 31 December 2008.

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

The normal contributions paid by the group in 2007 were £63,000 - $128,000 (2006: £51,000 - $95,000) and represented 24.9 per cent (2006: 20.9 per cent) of pensionable salaries. From 1 January 2008 the contribution rate will remain at 24.9 per cent. The additional contribution applicable to the group for 2007 was £206,000 - $414,000 (2006: £148,800 - $277,000) and in 2008 the additional annual contribution will rise to £212,000 - $422,000. The total for the period from 2009 to 2015 is £1,656,000 - $3,295,000. A liability of £1,546,000 - $3,077,000 (2006: £1,675,000 - $3,282,000) for these additional contributions adjusted for the time value of money and an equal expense in profit or loss has been recognised within retirement benefit obligations (see note 26).

The company has a contingent liability for additional contributions payable by other (non-group) employers in the Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made.

36. Related party transactions

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

36. Related party transactions - continued

	2007 $'000	2006 $'000
Short term benefits	1,083	1,125
Post employment benefits	98	73
Other long term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
	1,181	1,198

37. Rates of exchange

	2007 Closing	2007 Average	2006 Closing	2006 Average
Indonesia rupiah to US dollar	9,419	9,166	9,141	9,020
US dollar to pound sterling	1.99	2.01	1.96	1.86

38. Post balance sheet events

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2007 was paid on 25 January 2008. In accordance with IAS10 “Events after the Balance Sheet Date” this dividend has not been included in these financial statements.

Auditors' report (company)

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

We have audited the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2007 which comprise the balance sheet, the movement in total shareholders' funds, the statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements.

Auditors' report (company) continued

It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London, England
24 April 2008

Company balance sheet

as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed and non-current assets			
Investments	(i)	47,596	46,537
Tangible fixed assets	(ii)	112	–
Deferred tax asset	(vi)	2,390	2,728
		50,098	49,265
Current assets			
Debtors	(iii)	842	5,130
Cash		11,419	3,111
Total current assets		12,261	8,241
Creditors: amounts falling due within one year	(iv)	(1,084)	(935)
Net current assets		11,177	7,306
Total assets less current liabilities		61,275	56.571
Creditors: amounts falling due after more than one year			
US dollar notes	(v)	(14,767)	(14,951)
Provision for liabilities and charges	(vi)	(670)	(1,148)
Net assets		45,838	40,472

	Note	2007 £'000	2006 £'000
Capital and reserves			
Called up share capital	(vii)	21,743	19,218
Share premium account	(viii)	16,005	10,928
Special reserve (non-distributable)	(viii)	–	1,892
Exchange reserve	(viii)	213	536
Profit and loss account	(viii)	7,877	7,898
Total shareholders' funds		45,838	40,472

Approved by the board on 24 April 2008 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Movement in total shareholders' funds

for the year ended 31 December 2007

	2007 £'000	2006 £'000
Total recognised (losses) / gains for the year	(472)	3,515
Dividends to preference shareholders	(1,127)	(965)
Dividends to ordinary shareholders	(637)	–
Issue of new ordinary shares by way of placings and open offer	6,750	10,920
Issue of new preference shares by way of placings	1,118	3,150
Issue of new ordinary shares on exercise of a director's share option	–	82
Issue of new ordinary shares on exercise of warrants	–	876
Issue costs of ordinary shares, preference shares and debt securities	(266)	(632)
	5,366	16,946
Shareholders' funds at beginning of year	40,472	23,526
Shareholders' funds at end of year	45,838	40,472

Statement of total recognised gains and losses

for the year ended 31 December 2007

	2007 £'000	2006 £'000
(Loss) / profit for the year	(340)	2,012
Share based payment - deferred tax credit	191	967
Currency translation (loss) / gain taken direct to reserves	(323)	536
	(472)	3,515

Accounting policies (company)

Accounting convention

Separate financial statements of R.E.A. Holdings plc (the "company") are required by the Companies Act 1985; as permitted by that act they have been prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP"). The principal accounting policies have been applied consistently and are unchanged from the previous year.

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

By virtue of section 230 of the Companies Act 1985, the company is exempted from presenting a profit and loss account. Equally, no cash flow statement has been prepared, as permitted by FRS 1 (revised 1996) "Cash flow statements".

Investments

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

Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Differences arising on the translation of foreign currency borrowings have been offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, net of any related taxation. All other exchange differences are included in the profit and loss account.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. No deferred tax has been provided in respect of any future remittance of earnings of overseas subsidiaries where no commitment has been made to remit such earnings.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows: land and buildings (short leasehold) - 10 years, and fixtures and fittings - 5 years.

(i) Investments

	2007 £'000	2006 £'000
Shares in subsidiaries	24,139	24,250
Loans to subsidiaries	23,457	22,287
	47,596	46,537

	£'000
Beginning of year	46,537
Additions to shares in and loans to subsidiaries	1,289
Exchange translation difference arising on foreign currency hedge	(230)
End of year	47,596

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of dormant subsidiaries and UK subsidiary sub-holding companies are not shown.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	100
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Ordinary	95
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group services	Ordinary	100

The entire shareholdings in Makassar Investments Limited, R.E.A. Services Limited and REA Finance B.V. are held direct by the company. All other shareholdings are held by subsidiaries.

(ii) Tangible fixed assets

	Land and buildings (short leasehold) £'000	Fixtures and fittings £'000	Total £'000
Cost:			
Beginning of year	–	–	–
Additions	85	45	130
End of year	85	45	130
Accumulated depreciation:			
Beginning of year	–	–	–
Charge for year	9	9	18
End of year	9	9	18
Carrying amount:			
End of year	76	36	112
Beginning of year	–	–	–

(iii) Debtors

	2007 £'000	2006 £'000
Trade debtors	5	–
Amount owing by group undertakings	761	5,025
Other debtors	22	66
Prepayments and accrued income	54	39
	842	5,130

(iv) Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	22	–
Amount owing to group undertakings	285	233
Other taxation and social security	–	112
Other creditors	12	23
Accruals	765	567
	1,084	935

(v) Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
US dollar notes:		
Amounts due between two and five years	4,917	–
Amounts due after five years	9,850	14,951
	14,767	14,951

The US dollar notes comprise US$30 million (2006 - US$30 million) nominal of 7.5 per cent dollar notes 2012/14 issued by the company ("US dollar notes") and are stated net of the unamortised balance of the issuance costs. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

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

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

(vi) Deferred tax asset and provision for liabilities and charges

	2007 £'000	2006 £'000
Deferred tax:		
Beginning of year	(1,580)	105
Net amount credited to profit and loss account	(350)	(327)
Net amount debited / (credited) to reserves	210	(1,358)
End of year	(1,720)	(1,580)

(vi) Deferred tax asset and provision for liabilities and charges - continued	2007 £'000	2006 £'000
Disclosed in provisions for liabilities and charges	670	1,148
Disclosed in non-current assets	(2,390)	(2,728)
Net deferred tax asset at end of year	(1,720)	(1,580)
The provision for deferred tax is made up as follows:		
Timing differences	670	1,148
Tax losses available	(2,390)	(2,728)
Undiscounted deferred tax	(1,720)	(1,580)

(vii) Called up share capital	2007 £'000	2006 £'000
Authorised:		
14,500,000 - 9 per cent cumulative preference shares of £1 each (2006 - 14,500,000)	14,500	14,500
41,000,000 - ordinary shares of 25p each (2006 - 41,000,000)	10,250	10,250
	24,750	24,750
Called-up and fully paid:		
13,600,000 - 9 per cent cumulative preference shares of £1 each (2006 - 11,449,624)	13,600	11,450
32,573,856 - ordinary shares of 25p each (2006 – 31,073,856)	8,143	7,768
	21,743	19,218

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

Changes in share capital:

- on 9 May 2007, 1,500,000 ordinary shares were issued, fully paid, by way of a placing at 450p per share to Mirabaud Pereire Nominees Limited (at close of business on 30 April 2007, the day that the terms of the placing were fixed, the middle market share price was 495p);
- on 5 September 2007, 1,064,581 9 per cent preference shares were issued, fully paid, by way of a placing at £1.05 per share; and
- on 2 October 2007, 1,085,795 9 per cent preference shares were issued, credited as fully paid, at par to ordinary shareholders by way of capitalisation of share premium account.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

(viii) Movement in reserves

	Share premium account £'000	Special reserve £'000	Exchange reserve £'000	Profit and loss account £'000
Beginning of year	10,928	1,892	536	7,898
Dividends to preference shareholders	–	–	–	(1,127)
Dividends to ordinary shareholders	–	–	–	(637)
Issue of new ordinary shares for cash	6,375	–	–	–
Issue of new preference shares for cash	53	–	–	–
Capitalisation issue of new preference shares	(1,085)	–	–	–
Expenses of issue	(266)	–	–	–
Release of special reserve	–	(1,892)	–	1,892
Recognised losses for the year	–	–	(323)	(149)
End of year	16,005	–	213	7,877

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company has not been presented. The loss before dividends recognised in the company's profit and loss account is £340,000 (2006: profit £2,012,000).

Pursuant to a reduction of capital confirmed by the High Court and effective on 17 May 2006, the company's capital redemption reserve was cancelled and the amount standing to the credit of the company's share premium account was reduced by £2,760,334; as a result the sum of £6,000,000 was credited to a special reserve. Since that date, the company has issued fresh capital of more than £1,891,550 in 2007 and of £4,108,450 in 2006 and, as permitted under the terms of the undertaking given to the High Court, has correspondingly released the special reserve to the company's profit and loss account.

(ix) Financial instruments and risks

Financial instruments

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

	2007 Book value £'000	2007 Fair value £'000	2006 Book value £'000	2006 Fair value £'000
Cash and deposits	11,419	11,419	3,111	3,111
US dollar notes	(14,767)	(14,095)	(14,951)	(13,776)
Net debt	(3,348)	(2,676)	(11,840)	(10,665)

The fair value of the US dollar notes reflects the last price at which transactions in those notes were effected prior to the year end.

Risks

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks. These policies have remained unchanged since the beginning of the year. It is and was throughout the year, the company's policy that no trading in financial instruments be undertaken. On occasions, the company enters into short term contracts for the sale of crude palm oil on behalf of its subsidiaries.

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2007, the company had outstanding US$30 million of 7.5 per cent dollar notes 2012/14. In accordance with a decision of the board of the company at the time of issue of the first tranche of these notes, such notes are treated as a currency hedge against the company's long term loans to subsidiaries (which are denominated in US dollars) and the additional investment in Makassar Investments Limited that was acquired during 2006 for a consideration of US$19 million. The company's policy towards currency risk is not to cover the long-term exposure in respect of its investment in subsidiaries (whose operations are mainly conducted in US dollars) to the extent that this exposure relates to the component of investment that is financed with sterling denominated equity.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2007 carried interest at fixed rates and on the basis of the company's analysis, it is estimated that a rise of one percentage point in all interest rates would give rise to an increase of approximately £115,000 (2006: £31,000) in the company's interest revenues in its profit and loss account.

(x) Pensions

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

As the Scheme is a multi-employer scheme, in which the participating employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets), pension costs are being accounted as if the Scheme were a defined contribution scheme. The subsidiary company that is a participating employer and other participating employers in the Scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover any deficit. The company made no payments to the Scheme in 2007 (2006: nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme; such liability will only arise if such other participating employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made.

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

(xi) Related party transactions

	2007 £'000	2006 £'000
Aggregate directors' remuneration:		
Salaries and fees	466	513
Benefits	33	36
Annual bonus	40	60
Gains on exercise of share options	–	163
	539	772

During 2007 and 2006, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report".

(xii) Rates of exchange

See note 37 to the consolidated financial statements.

(xiii) Commitments

The company has guaranteed a principal obligation of £7,747,000 (2006: £20,790,000) in respect of bank loans to PT REA Kaltim Plantations, a principal obligation of £251,000 (2006: nil) in respect of bank loans to PT Sasana Yudha Bhakti and a principal obligation of £22 million (2006: £15 million) relating to the outstanding 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. In each case, the company has also guaranteed all interest payments arising. The company's contingent liability for pension contributions is disclosed in note (x) above.

(xiv) Post balance sheet events

An interim dividend of 1p per ordinary share in lieu of final in respect of the year ended 31 December 2007 was paid on 25 January 2008. In accordance with FRS 21 "Events after the balance sheet date" this dividend has not been reflected in the financial statements.

Notice of annual general meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in R.E.A. Holdings plc, please forward this document (including the form of proxy contained herein) to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the forty eighth annual general meeting of the company will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 6 June 2008 at 10.00 am for the following purposes:

As ordinary business

1 To receive the company's annual report for the year ended 31 December 2007.

2 To approve the directors' remuneration report for the year ended 31 December 2007.

3 To re-elect as a director Mr R M Robinow, who, in accordance with the articles of association and having been a non-executive director for more than nine years, retires by rotation and as required by the Combined Code on Corporate Governance.

4 To re-elect as a director Mr J M Green-Armytage, who, in accordance with the articles of association and having been a non-executive director for more than nine years, retires by rotation and as required by the Combined Code on Corporate Governance.

5 To re-elect as a director Mr J R M Keatley, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance.

6 To re-elect as a director Mr L E C Letts, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance.

7 To re-appoint Deloitte & Touche LLP, chartered accountants, as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix the remuneration of the auditors.

As special business

To consider and if thought fit to pass the following resolutions of which resolutions 8 to 10 will be proposed as ordinary resolutions and resolution 11 will be proposed as a special resolution:

8 That the authorised share capital of the company be and is hereby increased from £24,750,000 to £27,750,000 by the creation of 3,000,000 9 per cent cumulative preference shares of £1 each ranking pari passu with the existing 9 per cent cumulative shares of £1 each.

9 That

(i) the directors of the company be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the company to allot relevant securities (as defined in sub-section (2) of section 80 of the Companies Act 1985) other than 9 per cent cumulative preference shares up to an aggregate nominal amount of £2,106,536, such authority to expire at the conclusion of the annual general meeting to be held in 2009; and

(ii) the authority conferred on the directors pursuant to paragraph (i) above includes the power to make an offer or agreement which would or might require relevant securities to be allotted after the authority has expired.

10 That

(i) the directors of the company be and are hereby further generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the company to allot 9 per cent cumulative preference shares up to an aggregate nominal amount of £3,900,000, such authority to expire at the conclusion of the annual general meeting to be held in 2009; and

(ii) the authority conferred on the directors pursuant to paragraph (i) above includes the power to make an offer

or agreement which would or might require 9 per cent cumulative preference shares to be allotted after the authority has expired.

11 That

(i) the directors of the company be and are hereby empowered in accordance with section 95 of the Companies Act 1985 to allot equity securities (as defined in sub-section (2) of section 94 of the Companies Act 1985) pursuant to the authority conferred on them by resolution 9 set out in the notice of the annual general meeting of the company to be held in 2008, as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to the allotment, such power to expire at the conclusion of the annual general meeting of the company to be held in 2009, provided that this power is limited to:

(a) the allotment of equity securities in connection with a rights issue or open offer in favour of the holders of ordinary shares in the capital of the company ("ordinary shares"), where the equity securities are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by such holders, subject only to such exclusions or other arrangements as the directors consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and

(b) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal value of £407,173; and

(ii) the power conferred on the directors by paragraph (i) above includes the power to make an offer or agreement which would or might require equity securities to be allotted after the power has expired.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
24 April 2008

Notes

The sections of the accompanying "Directors' report" entitled "Increase in share capital", "Power to issue share capital" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, the resolutions to be considered as special business.

A member of the company entitled to attend and vote at the meeting may appoint one or more proxies to exercise all or any of his or her rights to attend, speak and vote at the meeting provided that each proxy is appointed to exercise the rights attaching to (a) different share(s) held by the member. A proxy need not be a member. To appoint more than one proxy please photocopy the proxy form provided. The instrument appointing a proxy must be deposited at the registered office of the company not less than forty-eight hours before the time appointed for holding the meeting. The appointment of a proxy will not prevent a member from attending and voting at the meeting should he or she wish to do so.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have the right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative

will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

The company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that in relation to securities held in dematerialised form only those holders of shares registered in the register of members of the company at 6.00 pm on 4 June 2008 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries specified after 6.00 pm on 4 June 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Copies of letters setting out the terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

As at the date of this notice, the issued share capital of the company comprises 32,573,856 ordinary shares and 13,600,000 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 32,573,856 as at the date of this notice.

Form of proxy

R.E.A. Holdings plc Annual general meeting convened for 6 June 2008

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

If this proxy form is one of multiple appointments being made, please state in the adjacent box the number of shares in respect of which the proxy is appointed [ ]

	Ordinary resolutions	For	Against	Vote withheld
1	To receive the annual report for the year ended 31 December 2007	☐	☐	☐
2	To approve the directors' remuneration report for the year ended 31 December 2007	☐	☐	☐
3	To re-elect Mr R M Robinow as a director	☐	☐	☐
4	To re-elect Mr J M Green-Armytage as a director	☐	☐	☐
5	To re-elect Mr J R M Keatley as a director	☐	☐	☐
6	To re-elect Mr L E C Letts as a director	☐	☐	☐
7	To re-appoint Deloitte & Touche LLP as auditors of the company and to authorise the directors to fix their remuneration	☐	☐	☐
8	To increase the authorised share capital of the company	☐	☐	☐
9	To grant authority in accordance with section 80 of the Companies Act 1985	☐	☐	☐
10	To grant further authority in accordance with section 80 of the Companies Act 1985 in respect of preference shares of the company	☐	☐	☐
	Special resolution			
11	To grant power in accordance with section 95 of the Companies Act 1985	☐	☐	☐

I/We would like my/our proxy to vote on the resolutions proposed at the meeting as indicated on this form. Where no indication is given, the proxy may vote or abstain as he or she sees fit in relation to any business of the meeting.

Signature: ______________________ Date: ______________

Initials and surname: ______________________

Address: ______________________

____

Please use block capitals

Notes

- You may appoint one or more proxies of your own choice, if you are unable to attend the meeting but would like to vote. If it is desired to appoint any other person (who need not be a member of the company) to act as proxy, insert the name on this form and strike out the words "the chairman of the meeting". If no name is entered, the return of this form duly signed will authorise the chairman of the meeting to act as your proxy..
- The "vote withheld" option is provided to enable you to abstain on any particular resolution. A vote withheld is not a vote in law and will not be counted as a vote for or against a resolution.
- Any alterations made in this form of proxy should be initialled.
- If the appointer is a corporation, this form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised. Alternatively, a company to which section 44 of the Companies Act 2006 applies may execute this form of proxy by two authorised signatories or by a director of the company in the presence of a witness who attests the signature (in which case the name of the company should be clearly stated).
- In the case of joint holders of a share, any one holder may sign this form of proxy, but the vote of the senior who votes whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the share. In any event, the names of all joint holders should be stated on the proxy form.
- This form (and the power of attorney or other authority if any under which it is signed, or a notarially certified copy of such power or authority) must reach the registered office of the company at the address given overleaf not less than 48 hours before the time appointed for holding the meeting.
- Completion and return of a form of proxy will not prevent a member entitled to attend and vote at the meeting from attending and voting in person if he or she so wishes.

THIRD FOLD AND TUCK IN

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

FIRST FOLD

SECOND FOLD