



R.E.A. HOLDINGS PLC - HALF YEARLY REPORT
2011



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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Summary of results

for the six months ended 30 June 2011

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Change %
Sales revenue	75,464	50,290	+ 50
Earnings before interest, tax, depreciation, amortisation and biological gain	39,874	24,509	+ 63
Profit before tax	36,870	20,056	+ 84
Profit for the period	27,447	14,213	+ 93
Profit attributable to ordinary shareholders	25,247	12,947	+ 95
Cash generated by operations (note 14)	22,864	14,793	+ 55
<hr/>			
Earnings per ordinary share (diluted)	75.6 cents	38.8 cents	+ 95

Chairman's statement

Results

The group profit before tax for the six months to 30 June 2011 was \$36,870,000 as compared with the profit before tax for the corresponding period of 2010 of \$20,056,000. As in 2010, the increase was very much in line with the increase in gross profit (\$44,137,000 against \$26,971,000), reflecting a \$25,174,000 improvement in revenue partially offset by a \$9,343,000 increase in cost of sales.

The increase in revenue was the combined result of the group's increased production of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"), the higher prices realised for these products as detailed under "Agricultural operations" below and the growing volume of coal sales. Increased production of CPO and CPKO, together with the costs attributable to the increasing coal throughput, also accounted for a large part of the increased costs of sales. Other contributory factors were the stronger Indonesian rupiah (with an average rate of Rp 8,716 = \$1 for the first six months of 2011 against a comparative average rate of Rp 9,182 = \$1), higher input costs, particularly for diesel, an increased volume of external purchases of oil palm fresh fruit bunches ("FFB") at prices higher than those prevailing in 2010 and the costs of upkeeping recently immature oil palms now classified as mature but not yet yielding at a level sufficient to cover upkeep and harvesting costs.

Administrative expenses at \$5,970,000 were \$1,812,000 higher than in 2010. As with cost of sales, the stronger Indonesian rupiah contributed to this increase but extra overheads, resulting from the expansion of the coal operations and additions to senior management as part of the group's succession planning, also had an impact.

The net gain on valuation of the group's biological assets included in operating profit for the six months to 30 June

2011 amounted to \$3,076,000 (\$640,000). The discount rates applied in the valuation remained at the same levels as those assumed in 2010, namely 16 per cent for the estates owned by the company's principal Indonesian operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") 17.5 per cent for the estates owned by the company's other main Indonesian operating subsidiary, PT Sasana Yudha Bhakti ("SYB") and 19 per cent for all other estates owned by the group.

Although the coal operations are still at an early stage and their net impact on the group results during the six months to 30 June 2011 was small, sales volumes are increasing and are likely to account for more than 10 per cent of group revenue for 2011. The notes to the accompanying financial statements therefore include for the first time a segmental analysis showing separate financial data for the plantation and coal operations.

The group's appeals against disputed Indonesian assessments of tax on the profits of REA Kaltim for 2006 and 2008 have still to be decided. The group has previously provided in full against the former assessment and to the extent of some \$5.5 million or approximately 50 per cent against the latter assessment. The disputed amounts have already been paid in full pending decisions by the Indonesian tax court.

Ordinary dividend

For some years, the directors have followed the practice, when publishing the group's half yearly report, of declaring a first interim dividend in respect of the year to which the report relates for payment shortly after publication of the report. For reasons explained in the group's annual report in respect of 2010, it has been decided to discontinue this practice. Instead and, as already known, the company will on 30 September 2011 pay a dividend of 3p per ordinary share to shareholders on the register of members on 2 September 2011 as a final

Chairman's statement continued

dividend in respect of 2010 rather than, as would previously have been the case, as a first interim dividend in respect of 2011. Following this change, and in the absence of unforeseen circumstances, the directors intend that a first interim dividend in respect of 2011 should be paid in January 2012 and a final dividend in respect of the year in July 2012. The directors currently intend that the first interim dividend should be at the rate of 3p per ordinary share.

As shareholders will be aware, the group has ambitious plans for continued extension planting of oil palms. These plans will require substantial investment by the group and the need to fund this investment currently constrains the rate at which the directors feel that they can prudently declare, or recommend the payment of, forthcoming ordinary dividends on the ordinary shares of the company.

The directors believe that capitalisation issues of new preference shares, such as were made in 2010 and on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of ordinary dividends. Accordingly, the directors propose that the company should make another capitalisation issue of new preference shares to ordinary shareholders, on this occasion on the basis of three new 9 per cent cumulative preference shares for every 50 ordinary shares held on 28 September 2011. A circular setting out details of the proposed capitalisation issue is being issued to shareholders together with this interim report.

Agricultural operations

FFB harvested during the six months to 30 June 2011 totalled 299,634 tonnes. This was slightly ahead of the budgeted crop of 289,809 tonnes and 21 per cent ahead of the crop harvested in the first six months of 2010 of 246,684 tonnes. The July FFB crop was also above

budget but as the monthly phasing of crops varies from year to year, it would be premature to conclude that the crop for 2011 as a whole is likely to exceed the annual crop budget.

Rainfall for the first half of 2011 at 2,011 millimetres was a little below the 2,236 millimetres in the first half of 2010 but still more than sufficient for oil palm cultivation. July has, relatively speaking, been rather dry with only 96 millimetres of rain and August is likely to be another dry month. Moisture stress suffered by palms during this drier period could affect production during part of 2012 but its impact should not be material if levels of rain increase in September as they normally do. In any event, it can reasonably be expected that cropping for the remaining months of 2011 should not be adversely affected by any extreme weather influences.

External purchases of FFB for the six months to 30 June 2011 totalled 14,844 tonnes (2010: 8,754 tonnes). Processing of the externally purchased FFB and the group's own production, together totalling 314,479 tonnes (2010: 255,438 tonnes), produced 71,334 tonnes of CPO (2010: 61,844 tonnes) and 13,972 tonnes of palm kernels (2010: 11,618 tonnes), reflecting extraction rates of 22.68 per cent for CPO (2010: 24.21 per cent) and 4.44 per cent for palm kernels (2010: 4.55 per cent). Production of CPKO amounted to 5,330 tonnes (2010: 4,598 tonnes) representing an extraction rate of 39.31 per cent (2010: 40.00 per cent). The reduction in the CPO extraction rate reflects the higher proportion of crop from newly mature areas in the period and the lower CPO extraction rates achieved in the early months of 2011. The directors attribute the latter to the overcast weather conditions during those months (lack of solar radiation is known to have a negative effect on photosynthesis which is important to oil formation). There has been some subsequent improvement and the CPO extraction rate for July 2011 was 23.50 per cent.

During 2011, the CPO price has remained at levels comfortably in excess of \$1,000 per tonne, CIF Rotterdam, and at times has traded at above \$1,300 per tonne. It currently stands at \$1,080 per tonne. The average price for the six months to 30 June 2011 was \$1,196 as compared with an average for the corresponding period in 2010 of \$809. At these higher prices, the progressive nature of Indonesian duty levied on exports of CPO does however mean that the major proportion of any price in excess of \$900 per tonne accrues to the Indonesian state rather than to CPO producers.

The pattern of sales of recent years has continued into 2011 with a significant proportion of CPO and CPKO being sold predominantly to refineries in East Malaysia or to the local Indonesian market. The average selling price for the group's CPO for the six months to 30 June 2011 on an FOB basis at the port of Samarinda, net of export duty, was \$916 per tonne (2010: \$711 per tonne). The average selling price for the group's CPKO on the same basis was \$1,515 per tonne (2010: \$867 per tonne). The group has no outstanding forward sales at fixed prices.

The overhaul of the group's older oil mill is nearing completion while the additional capacity that has been installed in the newer mill is now fully operational and working at its rated capacity. The new third oil mill remains on track for completion in 2012. Construction of the two new methane conversion plants is running slightly ahead of schedule so that the plants may now be brought into operation before the end of 2011.

Agricultural land allocations and development

Development during the six months to 30 June 2011 was concentrated on completing the planting out of areas already under development at 31 December 2011. Since 30 June, development has started on a gross area of

7,321 hectares held by the company's subsidiary, PT Kutai Mitra Sejahtera. Of this area, it is hoped that some 5,000 hectares will be plantable and the group expects to complete land clearing and preparations for planting of the entire 5,000 hectares before the end of 2011.

Progress has also been made on the development permits for the company's subsidiary, PT Putra Bongan Jaya, which holds a further gross area of 11,737 hectares. It is hoped to start land clearing in this area (of which some 7,000 hectares should be plantable) in the third quarter of 2011.

The group retains its oil palm development target for the two year period to the end of 2011 of 8,000 hectares in total. This will require development of approximately 7,000 hectares during 2011. The directors believe that there remains a realistic prospect of meeting this target, in the sense of commencing development of the entire 7,000 hectares, during 2011, but completion of planting out will almost certainly have to take place in the early months of 2012.

The overall area of fully titled agricultural land held by the group has remained unchanged since 20 April 2011 when the group's 2010 annual report was published. Such area currently stands at 70,584 hectares (31 December 2010: 63,263 hectares). Of this total, mineral rights in respect of some areas that are currently unplanted are held by third parties. The group and the affected third parties are currently in discussions aimed at resolving their conflicting claims. Subject to successful conclusion of these discussions, the directors believe that approaching 70 per cent of the group's existing titled areas should ultimately be planted with oil palms.

The group continues actively to pursue titling of the land allocations (exceeding 15,000 hectares) currently held and to seek additional land areas in the vicinity of its existing operations.

Chairman's statement continued

Coal operations

Mining operations at the Kota Bangun concession started in January 2011 and a total of some 20,000 tonnes of coal had been mined up to end June 2011. It had been planned to increase production during the second half of the year to a level of 16,000 tonnes a month but the principal contractor appointed by the group to carry out overburden removal and coal extraction has recently run into financial difficulties and has had to withdraw from the contract with the group. Whilst this development did not cause the group any direct financial loss, it has meant that mining operations at Kota Bangun have had to be temporarily halted. The group is taking the opportunity to review its options for the Kota Bangun concession including, among others, contract mining or, alternatively, renting or purchasing new equipment and recruiting suitably qualified operators to enable the group itself to undertake overburden removal and coal extraction.

Although the Liburdinding concession is also not currently in production, the position as respects this concession has improved. The group now believes that it will be able to sell the higher sulphur coal that the Liburdinding concession contains at prices that will permit profitable mining. An additional mapping and drilling programme is currently underway that will provide a more precise delineation of the available resource in accordance with industry standards. Revision of existing mine planning will follow with a resumption of production expected in the first quarter of 2012.

Sales of traded coal to the end of June 2011 amounted to 118,041 tonnes (2010: nil) and a further 110,061 tonnes were sold during July and August. The group remains on target to reach an average monthly level of traded coal sales of 100,000 tonnes by the end of 2011. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group is in talks that may result in long term arrangements for

meeting a proportion of the traded coal requirement by mining third party owned concessions against payment of royalties.

Environmental and social responsibility

REA Kaltim has now received certification that it meets the applicable Roundtable on Sustainable Palm Oil ("RSPO") standards as a producer of sustainable palm oil. The certification covers the two crude palm oil mills operated by REA Kaltim as well as the REA Kaltim oil palm estates and their associated smallholders. Audit for RSPO accreditation of SYB is planned for later in 2011.

The group is maintaining its community development, smallholder and conservation programmes and remains on target to increase the planted plasma scheme areas by 1,000 hectares during 2011.

Consultants appointed by the group have provided a first assessment of the group's carbon footprint but it is clear that this will require considerable refinement before achieving the level of accuracy that is needed for published figures. It is already apparent that, excluding methane emissions and land use change, the group's operations are carbon positive. Methane emissions should be very significantly reduced when the new methane conversion plants are brought into operation. Derivation of the carbon impact of land use change presents serious difficulties in terms of both allocation and measurement. Most agricultural land worldwide was once forested and the period and extent to which the carbon impact of its conversion for agricultural use should be reflected in the carbon footprint of crops subsequently grown on such land is as much a political as a scientific question. Moreover, the volume of biomass on large areas of land scheduled for conversion to oil palms is difficult to assess. The group is cooperating in a research study by the University of Utrecht in areas immediately adjacent to the group's plantings aimed at investigating the accuracy

with which measurements of backscatter from satellite radar photographs can be used to assess biomass in formerly forested areas.

Financing

The group continues to be financed by a combination of debt and equity (comprising ordinary and preference share capital). Total equity including non-controlling interests at 30 June 2011 amounted to \$260.1 million against \$235.5 million at 31 December 2010.

During the six months to 30 June 2011, group indebtedness was reduced by repayment of \$5.8 million of bank indebtedness owed to a consortium of Indonesian banks and by repurchase of 139,250 redeemable participating preference shares of KCC Resources Limited (representing indebtedness of \$1.4 million). Against this, the group drew down Rp 125 billion (\$14.4 million) under an Indonesian rupiah amortising loan facility with PT Bank DBS and \$1.5 million under working capital lines.

As a result, group indebtedness and related engagements at 30 June 2011 totalled \$139.7 million against \$132.1 million at 31 December 2010. The total at 30 June 2011 comprised \$45 million nominal of 7.5 per cent dollar notes 2012/14 (carrying value: \$43.6 million), £37 million of 9.5 per cent guaranteed sterling notes 2015/17 (carrying value: \$56.9 million), \$9.2 million in respect of the hedge of the principal amount of the sterling notes, term loans from Indonesian banks totalling \$27.4 million and other indebtedness, principally comprising drawings under working capital lines, of \$2.6 million. Against this indebtedness, the group held cash and cash equivalents of \$37.5 million (31 December 2010: \$36.7 million).

Trade and other receivables at 30 June 2011 amounted to \$41.6 million against \$28.7 million at 31 December

2010. The significant increase principally reflected the expanding coal trading activity combined with prepayments against capital projects and short term advances to smallholder cooperatives which will be repaid on disbursement of bank funding to the cooperatives.

Since 30 June 2011, the group has raised some £15 million net of expenses by way of a placing of 15 million 9 per cent cumulative preference shares at a price of 103p per share. Further reductions of indebtedness have been effected by repurchase and cancellation of \$10 million nominal of dollar notes and £2.46 million nominal of sterling notes. In addition, the group has given notice to repay the outstanding balance of the Indonesian consortium bank loan (which at 30 June 2011 totalled \$7.7 million) and this repayment should be completed in the near future.

Possible emigration to South East Asia

In the group's 2010 annual report and in the prospectus published by the company on 23 June 2011 in relation to the issue by the company of 15,000,000 new preference shares, the directors noted that they were considering whether the current ownership of the group's Indonesian businesses through a UK listed company continued to be the appropriate long term structure for the group or whether the group would be better restructured with a parent company listed in South East Asia ("REA SEAsia").

The directors have spent some time investigating the technical feasibility of such a restructuring ("emigration") and have sought the views of the company's larger ordinary shareholders as to whether they would support such a move. It appears that emigration would be feasible and, if, as might well be the case, it would be likely to result in a better rating for the company's ordinary shares, would be supported by most larger ordinary shareholders. However, the directors are currently considering what they see, at least for the immediate future, as an

Chairman's statement continued

alternative to emigration, namely an Indonesian public offering of a minority shareholding in REA Kaltim, coupled with a listing of the shares of REA Kaltim on the Jakarta Stock Exchange.

Such a move would involve a less sweeping change in the group's circumstances but would permit the group to establish a more local profile for itself in Indonesia. The directors believe that this is likely to become an increasingly important factor in determining whether the group is able to add to its East Kalimantan land bank as it would like to do. Moreover, listing the shares of REA Kaltim on the Jakarta Stock Exchange could be expected to encourage coverage of the group by South East Asian based investment analysts (increased coverage by such analysts being one perceived advantage of emigration). Were the group to proceed with a sale of a minority shareholding in REA Kaltim, the directors contemplate that some element of the proceeds (if then surplus to the immediate needs of the group) might be applied in repurchasing existing issued ordinary shares of the company.

Nothing has yet been decided as regards emigration or the alternative of selling a minority shareholding in REA Kaltim and listing the shares of REA Kaltim in Jakarta. The directors are continuing to explore the issues involved. They do, however, believe that it is important to reach an early conclusion as to the way forward and intend to reach a decision on this matter during 2011.

In the event of emigration, the directors expect that the company would maintain the London listing of the preference shares until at least 90 per cent of preference shares have been exchanged for listed preference shares in REA SEAsia or, if earlier, all outstanding listed debt securities of the group have been redeemed (under normal circumstances, 31 December 2017). The directors would also expect to secure undertakings from

REA SEAsia to provide appropriate protection of the rights of preference shareholders.

Prospects

Notwithstanding current uncertainties in the international financial markets, prices within the vegetable oil complex have remained at historically high levels as, indeed, have coal prices. The fundamentals of both markets still appear good with physical consumption absorbing available supply at current price levels and rising demand from both China and India underpinning both markets. If the international crisis atmosphere continues then some fall in all commodity price levels does seem likely, but, in the particular markets that affect the group, there appears to be a reasonable prospect that prices will remain at firm levels. If that proves the case, 2011 should be a good year for the group.

RICHARD M ROBINOW

Chairman

24 August 2011

Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the group as at the date of publication of the company's 2010 annual report were set out in that report, under the heading "Principal risks and uncertainties", on pages 48 to 54 of the report (a copy of which may be downloaded from the company's website at www.rea.co.uk). In summary, such risks and uncertainties comprised:

- the exposure of the group's agricultural operations to adverse climatic conditions, pests, diseases and potential damage from logistical disruptions;
- the financial dependence of the agricultural operations upon crude palm oil ("CPO") and crude palm kernel oil ("CPKO") prices and, as respects the planned level of the extension planting programme, the group's ability to make land available for planting and to finance expansion at the rate that the programme will require;
- currency risks inherent in the fact that CPO, CPKO and coal are essentially dollar based commodities and that operational costs are incurred partly in other currencies;
- environmental risks stemming from the group's operations in a region that elsewhere includes substantial areas of unspoilt rain forest;
- regulatory, country and locality risks that arise from the fact that substantially all of the group's agricultural assets are located in the East Kalimantan province of Indonesia; and
- failure by the group's new coal operations to achieve the anticipated results with a consequent loss of capital invested in those operations.

The directors consider that the principal risks and uncertainties for the second six months of 2011 continue to be those set out in the company's 2010 annual report as summarised above.

Directors' responsibilities

The directors are responsible for the preparation of this half yearly financial report.

The directors confirm that the accompanying condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union and that:

- the "Chairman's statement" and "Risks and uncertainties" sections of this half yearly report include a fair review of the information required by rule 4.2.7 of the Disclosure and Transparency Rules of the Financial Services Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- note 16 in the notes to the consolidated financial statements includes a fair review of the information required by rule 4.2.8 of the Disclosure and Transparency Rules of the Financial Services Authority, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period, and any changes in the related party transactions described in the last annual report that could do so.

The current directors of the company are as listed on pages 55 and 56 of the company's 2010 annual report.

Approved by the board on 24 August 2011

RICHARD M ROBINOW

Chairman

Consolidated income statement

for the six months ended 30 June 2011

	Note	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Revenue	2	75,464	50,290	114,039
Net (loss) / gain arising from changes in fair value of agricultural inventory	3	(473)	(1,808)	455
Cost of sales		(30,854)	(21,511)	(48,581)
Gross profit		44,137	26,971	65,913
Net gain arising from changes in fair value of biological assets	10	3,076	640	1,588
Other operating income	2	143	519	449
Distribution costs		(857)	(674)	(1,455)
Administrative expenses	5	(5,970)	(4,158)	(10,228)
Operating profit		40,529	23,298	56,267
Investment revenues	2	1,256	653	1,894
Finance costs	6	(4,915)	(3,895)	(7,714)
Profit before tax		36,870	20,056	50,447
Tax	7	(9,423)	(5,843)	(15,474)
Profit for the period		27,447	14,213	34,973
Attributable to:				
Ordinary shareholders		25,247	12,947	32,325
Preference shareholders		1,949	1,111	2,360
Non-controlling interests		251	155	288
		27,447	14,213	34,973
Earnings per 25p ordinary share	8			
Basic		75.6 cents	38.9 cents	97.0 cents
Diluted		75.6 cents	38.8 cents	96.8 cents

Consolidated balance sheet

as at 30 June 2011

	Note	30 June 2011 \$'000	30 June 2010 \$'000	31 December 2010 \$'000
Non-current assets				
Goodwill		12,578	12,578	12,578
Biological assets	10	232,585	213,049	221,883
Property, plant and equipment	11	88,982	75,793	85,488
Prepaid operating lease rentals		17,882	15,418	17,277
Indonesian coal interests		19,635	14,579	18,864
Deferred tax assets		5,861	5,780	5,743
Non-current receivables		1,761	1,294	1,417
Total non-current assets		379,284	338,491	363,250
Current assets				
Inventories		17,127	15,201	14,006
Trade and other receivables		41,565	17,790	28,662
Cash and cash equivalents		37,530	21,587	36,710
Total current assets		96,222	54,578	79,378
Total assets		475,506	393,069	442,628
Current liabilities				
Trade and other payables		(10,576)	(10,873)	(12,833)
Current tax liabilities		(8,814)	(8,270)	(8,973)
Obligations under finance leases		–	(33)	–
Bank loans		(4,900)	(1,800)	(7,850)
Ordinary dividend payable		(1,609)	–	–
Other loans and payables		(629)	(740)	(604)
Total current liabilities		(26,528)	(21,716)	(30,260)
Non-current liabilities				
Bank loans		(25,043)	(7,669)	(12,625)
Sterling notes		(56,882)	(52,702)	(55,244)
US dollar notes	12	(43,603)	(43,149)	(43,269)
Preference shares issued by a subsidiary	12	(108)	(1,500)	(1,500)
Hedging instruments		(13,453)	(19,310)	(17,726)
Deferred tax liabilities		(44,014)	(40,080)	(41,010)
Other loans and payables		(5,778)	(4,019)	(5,474)
Total non-current liabilities		(188,881)	(168,429)	(176,848)
Total liabilities		(215,409)	(190,145)	(207,108)
Net assets		260,097	202,924	235,520
Equity				
Issued share capital	12	60,548	43,517	60,548
Share premium account	12	24,901	27,543	24,901
Translation reserve		(16,233)	(18,384)	(18,197)
Retained earnings		188,542	148,353	166,228
		257,758	201,029	233,480
Non-controlling interests		2,339	1,895	2,040
Total equity		260,097	202,924	235,520

Consolidated statement of comprehensive income

for the six months ended 30 June 2011

	Notes	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Profit for the period		27,447	14,213	34,973
Other comprehensive income				
Exchange differences on translation of foreign operations		(240)	5,759	3,644
Changes in fair value of cash flow hedges		4,272	(5,423)	(3,492)
Tax relating to components of other comprehensive income	13	(2,020)	(4,664)	(4,676)
Share based payment - deferred tax (charge) / credit		-	(49)	-
		2,012	(4,377)	(4,524)
Total comprehensive income for the period		29,459	9,836	30,449
Attributable to:				
Ordinary shareholders		27,211	8,144	27,758
Preference shareholders		1,949	1,111	2,360
Non-controlling interests		299	581	331
		29,459	9,836	30,449

Consolidated statement of changes in equity

for the six months ended 30 June 2011

	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Sub total \$'000	Non- controlling interests \$'000	Total equity \$'000
2011							
At 1 January 2011	60,548	24,901	(18,197)	166,228	233,480	2,040	235,520
Total comprehensive income	-	-	1,964	27,196	29,160	299	29,459
Dividends to preference shareholders	-	-	-	(1,949)	(1,949)	-	(1,949)
Dividends to ordinary shareholders	-	-	-	(2,933)	(2,933)	-	(2,933)
At 30 June 2011	60,548	24,901	(16,233)	188,542	257,758	2,339	260,097
2010							
At 1 January 2010	43,188	27,297	(13,630)	136,499	193,354	1,314	194,668
Total comprehensive income	-	-	(4,754)	14,009	9,255	581	9,836
Issue of ordinary shares	329	246	-	-	575	-	575
Dividends to preference shareholders	-	-	-	(1,111)	(1,111)	-	(1,111)
Dividends to ordinary shareholders	-	-	-	(1,044)	(1,044)	-	(1,044)
At 30 June 2010	43,517	27,543	(18,384)	148,353	201,029	1,895	202,924

Consolidated cash flow statement

for the six months ended 30 June 2011

		6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Net cash from operating activities				
Net cash from operating activities	14	9,134	3,408	21,292
Investing activities				
Interest received		1,256	653	1,894
Proceeds on disposal of property, plant and equipment		–	87	158
Purchases of property, plant and equipment		(4,866)	(6,690)	(18,504)
Expenditure on biological assets		(9,057)	(7,266)	(15,824)
Expenditure on prepaid operating lease rentals		(813)	(1,458)	(3,505)
Changes in non-controlling interests in subsidiaries		–	–	395
Investment in Indonesian coal rights		(670)	(1,720)	(6,005)
Net cash used in investing activities		(14,150)	(16,394)	(41,391)
Financing activities				
Preference dividends paid		(1,949)	(1,111)	(2,360)
Ordinary dividends paid		(1,324)	(1,044)	(2,597)
Repayment of borrowings		(5,800)	(750)	(1,500)
Repayment of obligations under finance leases		–	(30)	(64)
Issue of new ordinary shares on exercise of options		–	575	575
Proceeds of issue of preference share capital by a subsidiary		–	1,500	1,500
Purchase of preference shares issued by a subsidiary		(1,392)	–	–
Proceeds of issue of preference share capital by the company less expenses		–	–	14,389
Issue of US dollar notes, net of expenses		–	13,403	13,071
Sterling note reconstruction expenses		–	–	(180)
New bank borrowings drawn		15,881	–	11,743
Net cash from financing activities		5,416	12,543	34,577
Cash and cash equivalents				
Net increase / (decrease) in cash and cash equivalents	15	400	(443)	14,478
Cash and cash equivalents at beginning of period		36,710	22,050	22,050
Effect of exchange rate changes		420	(20)	182
Cash and cash equivalents at end of period		37,530	21,587	36,710

Notes to the consolidated financial statements

1. Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2011 comprise the unaudited financial statements for the six months ended 30 June 2011 and 30 June 2010, neither of which has been reviewed by the company's auditors, together with audited financial statements for the year ended 31 December 2010.

The information shown for the year ended 31 December 2010 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006, and is an abridged version of the group's published financial statements for that year which have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and should be read in conjunction with the annual financial statements for the year ended 31 December 2010 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those set out in the group's annual report for 2010.

The condensed consolidated financial statements for the six months ended 30 June 2011 were approved by the Board of Directors on 24 August 2011.

2. Revenue

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Sales of goods	75,407	50,290	113,805
Revenue from services	57	–	234
	<hr/>	<hr/>	<hr/>
	75,464	50,290	114,039
Other operating income	143	519	449
Investment income	1,256	653	1,894
Total revenue	<hr/>	<hr/>	<hr/>
	76,863	51,462	116,382

3. Agricultural produce inventory movement

The net gain 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).

4. Segment information

The group operates in two segments, the cultivation of oil palms and coal trading and mining in Indonesia. These two segments, together with the results of the head office, comprise the group's reportable segments.

Notes to the consolidated financial statements continued

4. Segment information - continued

Six months to 30 June 2011	Plantations \$'000	Coal \$'000	Head office \$'000	Total \$'000
Revenue	67,871	7,593	–	75,464
Gross profit	43,618	519	–	44,137
Net gain from changes in fair value of biological assets	3,076	–	–	3,076
Other operating income	–	143	–	143
Distribution costs	(857)	–	–	(857)
Administrative expenses	(3,514)	(423)	(2,033)	(5,970)
Operating profit	42,323	239	(2,033)	40,529
Investment revenues				1,256
Finance costs				(4,915)
Profit before taxation				36,870
Taxation				(9,423)
Profit for the period				27,447
Consolidated total assets	430,117	36,124	9,265	475,506
Depreciation charged to consolidated income statement	2,417	4	19	2,440
Additions to property, plant and equipment	4,791	1	74	4,866
Six months to 30 June 2010	Plantations \$'000	Coal \$'000	Other \$'000	Total \$'000
Revenue	49,490	800	–	50,290
Gross profit	26,770	201	–	26,971
Net gain from changes in fair value of biological assets	640	–	–	640
Other operating income	291	228	–	519
Distribution costs	(674)	–	–	(674)
Administrative expenses	(2,304)	(123)	(1,731)	(4,158)
Operating profit	24,723	306	(1,731)	23,298
Investment revenues				653
Finance costs				(3,895)
Profit before taxation				20,056
Taxation				(5,843)
Profit for the period				14,213
Consolidated total assets	363,890	20,218	8,961	393,069
Depreciation charged to consolidated income statement	1,832	3	16	1,851
Additions to property, plant and equipment	6,643	47	–	6,690

4. Segment information - continued

Year to 31 December 2010	Plantations \$'000	Coal \$'000	Other \$'000	Total \$'000
Revenue	109,866	4,171	2	114,039
Gross profit	65,612	300	1	65,913
Net gain from changes in fair value of biological assets	1,588	–	–	1,588
Other operating income	449	–	–	449
Distribution costs	(1,455)	–	–	(1,455)
Administrative expenses	(5,914)	(310)	(4,004)	(10,228)
Operating profit	60,280	(10)	(4,003)	56,267
Investment revenues				1,894
Finance costs				(7,714)
Profit before taxation				50,447
Taxation				(15,474)
Profit for the year				34,973
Consolidated total assets	391,833	23,434	27,361	442,628
Depreciation charged to consolidated income statement	3,667	6	41	3,714
Additions to property, plant and equipment	19,245	25	6	19,276

5. Administrative expenses

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Net foreign exchange losses / (gains)	8	(101)	(74)
UK pension scheme	(124)	(109)	(225)
Indonesian operations	3,937	2,427	6,254
Head office	2,149	1,941	4,273
	5,970	4,158	10,228

6. Finance costs

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Interest on bank loans and overdrafts	1,095	321	974
Interest on US dollar notes	1,971	1,732	3,883
Interest on sterling notes	2,966	2,768	5,666
Interest on obligations under finance leases	–	1	1
Other finance charges	820	914	1,910
	6,852	5,736	12,434
Amount included as additions to biological assets	(1,937)	(1,841)	(4,720)
	4,915	3,895	7,714

Notes to the consolidated financial statements continued

7. Tax	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Current tax:			
UK corporation tax	–	–	1,042
Foreign tax	7,489	5,167	12,817
Total current tax	7,489	5,167	13,859
Deferred tax:			
Current year	1,934	676	1,615
Attributable to a decrease in the rate of tax	–	–	–
Total deferred tax	1,934	676	1,615
Total tax	9,423	5,843	15,474

Tax for the period is charged at 26% (2010: 29%) representing the best estimate of the average annual effective rate expected for the full year, applied to profit before tax for the six month period. If the income mix in the second half of 2011 differs from that of the first half, the overall effective rate of tax for the full year may vary from that used for the first six months. For the United Kingdom, the taxation provision reflects a corporation tax rate of 27 per cent.

8. Earnings per share	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Earnings for the purpose of earnings per share*	25,247	12,947	32,325
* being net profit attributable to ordinary shareholders			
	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	33,415	33,270	33,343
Effect of dilutive potential ordinary shares	–	128	66
Weighted average number of ordinary shares for the purpose of diluted earnings per share	33,415	33,398	33,409

9. Dividends	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Amounts paid or payable and recognised as distributions to equity holders:			
Preference dividends of 9p per share per annum	1,949	1,111	2,360
Ordinary dividends - interim	1,324	1,044	2,596
Ordinary dividends - final, payable 30 September 2011	1,609	–	–
	4,882	2,155	4,956

10. Biological assets	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Beginning of period	221,883	204,087	204,087
Reclassification from property, plant and equipment	–	1,076	1,076
Additions to planted area and costs to maturity	7,830	7,578	15,028
Transfers from property, plant and equipment	–	–	772
Transfers to non-current receivables	(3)	(332)	(227)
Transfers to current receivables	(201)	–	(441)
Net biological gain	3,076	640	1,588
End of period	232,585	213,049	221,883
Net biological gain comprises:			
Gain arising from changes in fair value attributable to physical changes	3,076	640	1,588
Gain arising from changes in fair value attributable to price changes	–	–	–
	3,076	640	1,588

11. Capital expenditure on property, plant and equipment and capital commitments

In the period, there were additions to property plant and equipment of \$4.9 million (2010: \$6.9 million).

Capital commitments contracted, but not provided for by the group, amounted to \$36.5 million (31 December 2010: \$1.4 million).

12. Issuance and repurchase of securities

There were no issues of securities during the first half of 2011 but during that period the group repurchased 139,250 of the redeemable participating preference shares of KCC Resources Limited referred to below for a consideration of \$1.5 million.

During the first half of 2010, the company issued 840,689 ordinary shares of 25p each at a price of 43.753p on the exercise by a director of all his remaining options.

On 10 February 2010 the company issued by way of a placing a further \$15 million nominal of additional dollar notes (ranking pari passu with and forming a single issue with the \$30 million nominal of 7.5 per cent dollar notes 2012/14 already in issue), in conjunction with the issue of 150,000 new redeemable participating preference shares of \$10 of KCC Resources Limited ("KCC"), a wholly owned subsidiary of the company. The monies raised by the issues of the additional dollar notes and the KCC preference shares amounted to \$15 million before issue expenses.

Notes to the consolidated financial statements continued

13. Tax relating to components of other comprehensive income

A provision of \$5,500,000 relating to tax in respect of a cash flow hedge was charged to other comprehensive income in the first half of 2010. This provision relates to tax in respect of cross currency interest rate swaps entered into by the group to hedge, against US dollars, the group's liability in respect of its outstanding 9.5 per cent guaranteed sterling notes 2015/17. The group has been advised that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise but an Indonesian tax assessment received by P.T. REA Kaltim Plantations ("REA Kaltim") denied the tax relief claimed by REA Kaltim for 2008 in relation to the swaps in question. The group has appealed against this assessment but pending a decision on the appeal, the directors considered it appropriate to make some provision for the inherent uncertainties of the appeal process. The disputed Indonesian tax assessment has been settled in full ahead of appeal. There has been no change to this provision in 2011.

14. Reconciliation of operating profit to operating cash flows

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Operating profit	40,529	23,298	56,267
Depreciation of property, plant and equipment	2,601	1,801	4,110
Decrease / (increase) in fair value of agricultural produce inventory	473	1,808	(455)
Amortisation of prepaid operating lease rentals	208	50	345
Amortisation of sterling and US dollar note issue expenses	450	184	793
Biological gain	(3,076)	(640)	(1,588)
Gain on disposal of property, plant and equipment	–	(27)	(52)
Operating cash flows before movements in working capital	41,185	26,474	59,420
(Increase) / decrease in inventories (excluding fair value movements)	(3,203)	(3,319)	180
Increase in receivables	(11,427)	(6,369)	(10,278)
(Decrease) / increase in payables	(2,522)	(2,696)	486
Exchange translation differences	(1,169)	703	402
Cash generated by operations	22,864	14,793	50,210
Taxes paid	(8,815)	(7,551)	(21,134)
Interest paid	(4,915)	(3,834)	(7,784)
Net cash from operating activities	9,134	3,408	21,292

15. Movements in net borrowings

	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000	Year to 31 December 2010 \$'000
Change in net borrowings resulting from cash flows:			
Increase / (decrease) in cash and cash equivalents	400	(443)	14,478
Net (increase) / decrease in borrowings	(10,081)	750	(10,243)
	(9,681)	307	4,235
Issue of US dollar notes less amortised expenses	(386)	(13,448)	(13,579)
Amortisation of sterling notes issue expenses	(165)	(139)	(104)
Proceeds of issue of preference share capital by a subsidiary	–	(1,500)	(1,500)
Purchase of preference shares issued by a subsidiary	1,392	–	–
Lease repayments	–	30	64
	(8,840)	(14,750)	(10,884)
Currency translation differences	(388)	4,359	1,981
Net borrowings at beginning of period	(83,778)	(74,875)	(74,875)
Net borrowings at end of period	(93,006)	(85,266)	(83,778)

16. Related parties

During the first six months of 2011 no new related party transactions have taken place, and there have been no changes to the related party transactions which were disclosed in the company's 2010 annual report, having in either case a material effect on the financial position or performance of the group during that period.

17. Events after the reporting period

Purchase and cancellation of sterling notes

On 13 July 2011, the company's wholly owned subsidiary, REA Finance B.V., completed the purchase for cancellation of £2,460,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 at a price of 105.45.

Issue of preference shares

On 19 July 2011, the company issued 15,000,000 9 per cent preference shares of £1 each, fully paid, by way of a placing at 103p per share.

Early redemption of dollar notes

On 19 August 2011, in pursuance of subsisting call rights, the company purchased for cancellation at par, together with accrued interest to the date of purchase, \$10 million nominal of 7.5 per cent dollar notes 2012/14 held by Mr ME Zukerman and associates.

Notes to the consolidated financial statements continued

18. Rates of exchange	30 June 2011		30 June 2010		31 December 2010	
	Closing	Average	Closing	Average	Closing	Average
Indonesia rupiah to US dollar	8,597	8,716	9,083	9,182	8,991	9,078
US dollar to pound sterling	1.605	1.62	1.496	1.53	1.566	1.55

