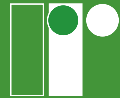
# R.E.A. HOLDINGS PLC - HALF YEARLY REPORT 2008



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# Summary of results

for the six months ended 30 June 2008

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Change % |
|---|---|---|---|
| Revenue | 46,113 | 24,160 | + 91 |
| Earnings before interest, tax, depreciation, amortisation and biological gain | 29,582 | 18,217 | + 62 |
| Profit before tax | 34,048 | 17,422 | + 95 |
| Profit for the period | 22,755 | 11,858 | + 92 |
| Profit attributable to ordinary shareholders | 21,307 | 10,810 | + 97 |
| Earnings per ordinary share (diluted) | 63.7cents | 33.5cents | + 90 |
| Dividend per ordinary share | 1.5p | 1.0p | + 50 |

# Chairman's statement

## Results

Following the decision, made for the purposes of the company's 2007 annual report, to change the presentational currency of the group to US dollars, the accompanying interim financial statements for the period to 30 June 2008 are presented in that currency. The comparative figures for the period to 30 June 2007, which were originally presented in sterling, have been restated in US dollars.

Group profit before tax for the six months to 30 June 2008 amounted to $34,048,000. This was some 95 per cent ahead of the profit before tax for the six months to 30 June 2007 of $17,422,000. Significant components of the increase were the higher gross profit of $32,617,000 against $19,375,000, and a biological gain of $7,460,000 against $2,029,000.

The advance in gross profit reflected the combination of an increased crop and improved selling prices. These favourable factors more than outweighed the negative impact of a significantly higher cost of sales, the combined result of increased crops and inflation in most operating inputs. The cost inflation was largely driven by higher petroleum oil prices which directly affected diesel and fertilisers costs and indirectly affected wages as the group's employees sought income adjustments to compensate for inflation in their own living costs.

With the estates owned by the company's principal subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), continuing to approach full maturity, the directors believe that the risks attaching to projections of future crops from REA Kaltim, which are one critical component of the valuation of the REA Kaltim estates for accounts purposes, have reduced. Accordingly, the directors have reduced the discount rate utilised in valuing these estates to 16 per cent (31 December 2007 - 17.5 per cent). The effect of this change has been to increase the biological gain for the half year by $5.6 million. The discount rate for the group's other estates has been left unchanged at 19 per cent, the rate applied at 31 December 2007. Looking forward, the directors contemplate that, in due course, it may become appropriate to divide the group's estates into three categories, fully mature, developing and newly established, and to apply a different discount rate to each category.

## Ordinary dividend

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

The directors appreciate that many shareholders invest not only for capital growth but also for income and that therefore the payment of dividends is important. A dividend of 1p per ordinary share was paid in respect of 2006 and dividends totalling 2p per ordinary share were paid in respect of 2007. With crops increasing in 2008 and the expectation of further increases in future years, the directors believe that, notwithstanding the cash constraints of the development programme, the group should be able to support further increases in ordinary dividends from the level established in respect of 2007. However, as previously stated, they do envisage that, because of the cash constraints referred to above, the rate of progression will be steady rather than dramatic. Moreover, the directors intend that any new level of ordinary dividends paid in respect of any given year should, barring a major reversal, be sustainable in subsequent years.

On this basis, the directors have declared a first interim dividend in respect of 2008 of 1½p per ordinary share

payable on 26 September 2008 to shareholders on the register of members on 5 September 2008. Absent unforeseen circumstances, the directors intend to declare a second interim dividend, in lieu of final, in respect of 2008, for payment in January 2009, of a further 1½p per ordinary share, making a total dividend of 3p per ordinary share in respect of the year (2007 – 2p).

The directors recognise that there may be years in which the group’s performance might be considered to justify a greater return to ordinary shareholders than a dividend at the levels that the directors believe that the company can prudently afford, having regard to the need to conserve cash resources. This was the case in 2007 when the group was benefiting from crude palm oil ("CPO") prices that were relatively high by comparison with the CPO price levels of the immediately preceding years. In acknowledgement of this, the company made a capitalisation issue to ordinary shareholders of new preference shares on the basis of one new preference share for every 30 ordinary shares held.

With the results achieved to date in 2008 and the positive prospects for the remainder of the year, the directors believe that it is again appropriate to provide some additional return to shareholders beyond the cash dividends that the directors have declared or intend to declare. Accordingly, the directors propose that the company should make another capitalisation issue of new preference shares to ordinary shareholders, on this occasion of 1,302,954 new 9 per cent cumulative preference shares on the basis of one new preference share for every 25 ordinary shares held on 23 September 2008. A circular setting out details of the proposed capitalisation issue will be despatched to shareholders together with this interim report.

## Operations

Fresh fruit bunches (" FFB") harvested during the six months to 30 June 2008 totalled 231,000 tonnes. This was well ahead of the crop of 165,000 tonnes achieved in the corresponding period of 2007 and some 30,000 tonnes ahead of budget. Year to year variations in the monthly phasing of crops are normal and it is dangerous to project crops for any given year by reference only to the cropping experience of half the year. That said, the crop for July 2008 was some 7,000 tonnes ahead of budget and local assessments of bunch formation have been encouraging. It is therefore possible that the budget for 2008 of 421,000 tonnes of FFB could be exceeded.

CPO and palm kernel production for the six months to 30 June 2008 amounted to, respectively, 53,800 tonnes (2007: 40,700 tonnes) and 10,500 tonnes (2007: 7,000 tonnes) reflecting extraction rates of 23.0 per cent for CPO (2007: 24.5 per cent) and 4.5 per cent for kernels (2007: 4.2 per cent). Production of crude palm kernel oil ("CPKO") for the period amounted to 4,200 tonnes (2007: 2,900 tonnes) with an extraction rate of 40.3 per cent (2007: 41.4 per cent).

The CPO extraction rate for the half year was a little disappointing. This has been previously attributed by the directors to overcast conditions causing a reduction in levels of solar radiation (which is known to be important to oil formation) and there is little doubt that this has been one factor. However, it may not be the only factor. With increasing crops and competition for harvesters from other oil palm growers, the group has been slightly short of harvesters and this could have caused some slippage in maintaining the discipline of harvesting only fully ripe bunches (which is critical to optimisation of oil content). Every effort is being made to increase the group's complement of harvesters to the optimal level required for current cropping.

Rainfall in the half year averaged 1,860 millimetres across the group's estates. Although lower than the rainfall of 2,790 millimetres received in the first half of 2007, this was still more than sufficient for oil palm cultivation.

The CPO market was firm throughout the first six months of 2008. Prices per tonne rose from the beginning of the year, reached a peak in early March 2008 at almost $1,400, CIF Rotterdam, and then fell back to a level of just over $1,200 by the end of the period. The average CPO price over the six months was US$1,168 per tonne, CIF Rotterdam, as compared with an average of US$686 per tonne for the first half of 2007. During the period, the group delivered 2,000 tonnes per month against a 2007 forward contract at the equivalent of a CIF Rotterdam price of US$620 per tonne but sales were otherwise made at prevailing spot prices. Forward sales previously agreed by the group for the second half of 2008 and for 2009 have been cancelled. As a result, the group currently has no outstanding forward sales.

The export duty structure introduced by the Indonesian government during 2007 remains in place. Under this structure, export duty is payable on exports of CPO from Indonesia on a sliding scale. Duty is levied on the Indonesian gazetted price of CPO (being broadly the prevailing market price of CPO FOB Indonesian ports) at a percentage rate that 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.

All CPKO produced by the group continues to be sold to the local Indonesian market. During the first half of 2008, CPKO sales achieved an average premium of some $152 per tonne (2007 - $115 per tonne) over the spot FOB prices realised per tonne for CPO.

## Land allocations and development

The efforts initiated in the latter part of 2007 to augment the group's land bank and ensure the availability on a timely basis of land to meet the group's expansion plans continued into 2008. In early July, the conditions of the previously agreed acquisition of PT Putra Bongan Jaya ("PBJ") were satisfied and the group reached agreement in principle to acquire PT Praesetia Utama ("PU"). PBJ and PU (which will be owned 95 per cent by the group and 5 per cent by local investors) are both holders of substantial land allocations in East Kalimantan with the PU land allocation already the subject of a full hak guna usaha title.

Assuming completion of the acquisition of PU, the total area of the land allocations held by the group will increase to some 129,000 hectares. These land allocations are at different stages of titling and a significant element of the land allocated is not yet available to the group for planting. Completion of the titling process may result in allocated land areas, in respect of which there are conflicting claims to the land, becoming unallocated. Moreover, environmental considerations dictate that a proportion of all land developed is set aside for conservation and a further proportion is or will be required for roads, building and other infrastructural facilities. Accordingly, when the titling process in relation to the land areas currently allocated is completed, the plantable area is likely to be significantly less than 129,000 hectares.

After the disappointment of 2007, when titling problems in relation to untitled land allocations forced the group temporarily to suspend extension planting, good progress was made in the first half of 2008 in releasing allocated land areas for development. The successful resolution of a conflicting land claim resulted in 5,200 hectares of land held by PT Sasana Yudha Bhakti ("SYB") becoming immediately available for development and components of the land areas held by the recently acquired PT Cipta

Davia Mandiria ("CDM") and PBJ are now similarly available subject to allocation of areas for conservation. The developable areas should be augmented by almost the whole 9,000 hectare area held by PU if the acquisition of that company becomes unconditional. Moreover the directors are hopeful that a further area held by PT Kutai Mitra Sejahtera ("KMS") will also become available for development during the year.

With allocated land again available, the group resumed extension planting in May 2008. Development is currently in progress on land areas held by all three of SYB, CDM and PBJ. As land areas held by PU and KMS also become available, the group intends to commence development on those land areas as well. As a result, the group's overall development programme will be split between several separate areas and the directors hope that this will mean that, if unexpected setbacks occur in one area, the ability to compensate for these by accelerating development in the other areas will make it less likely that the group will again encounter the development problems suffered in 2007.

The targeted development programme for 2008 and 2009 is 6,500 hectares per annum. 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, the group continues to look for further areas suitable for planting with oil palms within the general vicinity of its existing land allocations.

## Social responsibility

During the six months to 30 June 2008, the group continued to develop its corporate social responsibility programmes in the fields of conservation, community development, smallholder farming, environmental protection and energy efficiency. In particular, the conservation team was extensively involved in the detailed field appraisals required for the establishment of appropriate conservation and community development programmes within the newly acquired areas. The team also supported the Indonesian Institute of Science in conducting aquatic surveys in the river systems adjacent to the group's current plantation areas.

## New initiative

Shareholders were previously advised that the group was considering a possible investment in coal mining. A small office has now been established in Jakarta to pursue potential opportunities. The office, which is staffed and operated quite separately from the group's plantation operations, has secured for the group a short term arrangement to supply coal to a power station in Sumatra, sourcing this coal from Kalimantan and elsewhere in Indonesia. Profits from this arrangement are expected to cover the costs of the office. More importantly, by involving itself in the arrangement, the group is obtaining a better understanding of the Indonesian coal market and of the opportunities open to foreign investors in coal mining in Indonesia.

With the experience gained from this initial activity, and with assistance from the group's long standing local connections in East Kalimantan, the group has been able to consider a number of opportunities for the acquisition of land areas in East Kalimantan with potential for open

cast mining of coal. One such opportunity is now coming to fruition. This would involve the acquisition by the group, for a consideration of about $3.5 million (to be satisfied in cash), of mining rights in respect of two adjacent concession areas with existing permits for coal mining and geological reports confirming proven coal reserves suitable for open cast mining. Acquisition of rights in respect of one of these concessions has recently been completed and it is hoped that an agreement in respect of the second concession will follow shortly. If all goes according to plan, coal extraction could commence in early 2009.

## Financing

The group continues to be financed by a combination of debt and equity (comprising ordinary and preference share capital). With the addition of profits retained for the six month period to 30 June 2008, total equity less minority interests at that date amounted to $168.2 million against $147.8 million at 31 December 2007.

Group indebtedness at 30 June 2008 totalled $86.2 million, unchanged from the position at 31 December 2007 ($86.2 million). The indebtedness at 30 June 2008 comprised dollar denominated bank indebtedness under an Indonesian consortium loan facility of $15.4 million, £22 million nominal of guaranteed sterling notes 2015/17 issued by REA Finance B.V. and guaranteed by the company ("sterling notes"), $30 million nominal of 7.5 per cent dollar notes 2012/14 issued by the company and other short term indebtedness (including obligations under finance leases) of $525,000. Against this indebtedness, the group held cash and cash equivalents of $38.5 million (31 December 2007: $34.2 million).

The extent of the cash and cash equivalents at 30 June 2008 reflected the delays during 2007 and the initial months of 2008 to the planned development programme which meant that development expenditure during this period was lower than it would have been had the development programme proceeded as intended. Now that development has been resumed and is proceeding apace, the group is committing to major new capital expenditures. In addition the group has had to fund the purchase consideration for PBJ of some $3.4 million (paid in cash during August 2008) and, if the proposed purchase of PU is completed, must also fund the consideration for that further acquisition which will amount to $7.3 million, also payable in cash. As indicated under "New initiative" above, the group also expects to invest some $3.5 million in the new venture in coal.

On the basis of present CPO prices, the directors expect that operating cash flows for the second half of 2008, together with the group's cash resources at 30 June 2008, will be sufficient to fund the planned development programme for the year, near term debt repayments and the proposed new investments. However, looking beyond 2008 and allowing for a lower average level of CPO prices than that of the past eighteen months, the group is likely to require further funding if, as the directors hope will be the case, high levels of extension planting are achieved. In view of this requirement, the group has recently placed for cash a further £15 million nominal of sterling notes and, in addition, has created another £13 million nominal of sterling notes which will be available for issue for cash if markets permit. The effect of this has been to increase the nominal amount of sterling notes in issue to £37 million and the prospective total size of the sterling note issue to £50 million.

## Change of accounting reference date

As noted in the company's 2007 annual report, the directors have been contemplating a change in the company's accounting reference date from 31 December to 28 February. Holders of the sterling notes have now consented to such a change but the directors are deferring a decision as to whether to extend the end of

the company's current financial period from 31 December 2008 to 28 February 2009 pending clarification of the tax implications for the company's Indonesian subsidiaries if, as is likely, the subsidiaries in question were also to change their year ends so as to retain reporting periods that are co-terminous with those of the company.

## Board and board committees

David Blackett was appointed as a non-executive director of the company with effect from 1 July 2008 and I am pleased to welcome him to the board. After qualifying as a chartered accountant in Scotland, Mr Blackett, who is aged 57, worked for over 25 years in South East Asia where he concluded his career as chairman of AT&T Capital Inc. Prior to joining that company, he was a director of an international merchant bank with responsibility for the bank's South East Asian operations.

The directors intend, in the near future, to revise the composition of the audit, remuneration and nomination committees.

## Articles of association

The directors consider that it is desirable that the company's articles of association be changed to reflect certain provisions of the Companies Act 2006 that are now in force or will shortly come into force. As the changes will affect a number of the articles of the existing articles of association, and as there have been numerous other changes in company law and practice, including to the rules of the UK Listing Authority, since the company's existing articles of association were adopted in 1988, the directors believe that the changes would most conveniently be effected by replacing the existing articles of association in their entirety. Accordingly the circular setting out details of the proposed capitalisation issue to be despatched to shareholders together with this interim report, as referred to under "Ordinary dividend" above, will also include proposals for the adoption by the company of new articles of association.

## Prospects

Recent weeks have seen substantial falls in the prices of many commodities including the prices of petroleum oil and CPO, with the latter currently trading at some $850 per tonne CIF Rotterdam. Whilst any reduction in the selling price of CPO negatively impacts the group, the effect of the price fall to date has been to some extent cushioned by significant reductions in the rate of Indonesian duty levied on CPO exports which, as noted under "Operations" above, is assessed on a sliding scale.

The directors have previously stated that they believe that the prices of all commodities are inherently cyclical and they retain that view. Against the background of the current uncertainties affecting the world economy, it would have been surprising if the CPO price had remained at the peak levels seen in the first half of 2008 and it has not done so. However, margins are still satisfactory at present price levels and would remain so even if the CPO price fell back to the $450 level that has been the average of the price cycles of the past twenty years.

Moreover the medium term fundamentals of the vegetable oil markets remain favourable. Growth in world population and increasing living standards in India, China and other developing world countries should continue to fuel demand. Supply at lower price levels is likely to be constrained by the increasing costs of production of the principal competitor oils produced from soybean, oilseed rape and sunflowerseed, all of which are annual crops. Additionally, at the lower CPO prices now being seen, the economics of converting CPO to bio-diesel at current petroleum prices have improved and there are press reports that bio-diesel projects that had been shelved against the background of the high CPO prices are being

resuscitated. Bio-fuel markets have the capacity to absorb very large volumes of CPO and other vegetable oils if the economics support this.

The group already has a substantial pipeline of immature areas and this will be increased if the group achieves its target of increasing its planted hectarage to some 45,000 hectares by the end of 2009. As immature areas progressively come into cropping, the group can look forward to increasing crops for a considerable number of years to come. Whilst the prices that these crops will realise will be wholly dependent upon prevailing markets, a rising trend in crops is ultimately likely to be reflected in rising revenues, The directors therefore remain confident in the future of the group.

**RICHARD M ROBINOW**
Chairman
28 August 2008

# 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 2007 annual report were set out in that report, under the heading "Risks and uncertainties", on pages 34 to 38 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 operations to adverse climatic conditions, pests, diseases and potential damage from logistical disruptions;
- the financial dependence of the operations upon CPO 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 is essentially a dollar based commodity;
- environmental risks stemming from the group's involvement in planting oil palm in a region that elsewhere includes substantial areas of unspoilt rain forest; and
- regulatory, country and locality risks that arise from the fact that substantially all of the group's assets are located in the East Kalimantan province of Indonesia.

The directors consider that the principal risks and uncertainties for the second six months of 2008 continue to be those set out in the company's 2007 annual report as described 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 13 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 page 39 of the company's 2007 annual report together with David Blackett who was appointed as an additional director on 1 July 2008.

Approved by the board on 28 August 2008
**RICHARD M ROBINOW**
Chairman

# Consolidated income statement

for the six months ended 30 June 2008

| | Note | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|---|
| **Revenue** | 2 | 46,113 | 24,160 | 57,600 |
| Net gain arising from changes in fair value of agricultural inventory | 3 | 216 | 2,397 | 5,578 |
| Cost of sales | | (13,712) | (7,182) | (14,875) |
| **Gross profit** | | 32,617 | 19,375 | 48,303 |
| Net gain arising from changes in fair value of biological assets | 9 | 7,460 | 2,029 | 8,030 |
| Other operating income | | 4 | – | 6 |
| Distribution costs | | (290) | (364) | (1,028) |
| Administrative expenses | | (4,168) | (2,344) | (5,925) |
| **Operating profit** | | 35,623 | 18,696 | 49,386 |
| Investment revenues | 2 | 603 | 718 | 1,641 |
| Finance costs | 5 | (2,178) | (1,992) | (4,017) |
| **Profit before tax** | | 34,048 | 17,422 | 47,010 |
| Tax | 6 | (11,293) | (5,564) | (15,013) |
| **Profit for the period** | | 22,755 | 11,858 | 31,997 |
| Attributable to: | | | | |
| Ordinary shareholders | | 21,307 | 10,810 | 29,453 |
| Preference shareholders | | 1,212 | 1,020 | 2,266 |
| Minority interest | | 236 | 28 | 278 |
| | | 22,755 | 11,858 | 31,997 |
| **Earnings per 25p ordinary share** | 7 | | | |
| Basic | | 65.4 cents | 34.3 cents | 91.9 cents |
| Diluted | | 63.7 cents | 33.5 cents | 89.6 cents |

All operations in all periods are continuing.

# Consolidated balance sheet

as at 30 June 2008

| | Note | 30 June 2008 $'000 | 30 June 2007 $'000 | 31 December 2007 $'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | 12,578 | 12,578 | 12,578 |
| Biological assets | 9 | 180,530 | 156,329 | 166,347 |
| Property, plant and equipment | | 48,865 | 30,066 | 41,772 |
| Prepaid operating lease rentals | | 9,108 | 5,387 | 8,823 |
| Deferred tax assets | | 8,266 | 9,465 | 5,817 |
| Non-current receivables | | 1,210 | 2,169 | 1,376 |
| Total non-current assets | | 260,557 | 215,994 | 236,713 |
| **Current assets** | | | | |
| Inventories | | 14,603 | 6,995 | 13,040 |
| Trade and other receivables | | 6,426 | 4,832 | 3,301 |
| Cash and cash equivalents | | 38,462 | 41,827 | 34,216 |
| Total current assets | | 59,491 | 53,654 | 50,557 |
| **Total assets** | | 320,048 | 269,648 | 287,270 |
| **Current liabilities** | | | | |
| Trade and other payables | | (10,056) | (6,805) | (7,070) |
| Current tax liabilities | | (5,266) | (227) | (2,935) |
| Obligations under finance leases | | (60) | (98) | (111) |
| Bank loans | | (7,616) | (8,250) | (3,000) |
| Other loans and payables | | (766) | (412) | (414) |
| Total current liabilities | | (23,764) | (15,792) | (13,530) |
| **Non-current liabilities** | | | | |
| Bank loans | | (8,167) | (15,417) | (12,917) |
| Sterling notes | | (40,768) | (40,229) | (40,713) |
| US dollar notes | | (29,439) | (29,335) | (29,389) |
| Deferred tax liabilities | | (43,789) | (35,774) | (37,166) |
| Obligations under finance leases | | (100) | (32) | (127) |
| Other loans and payables | | (4,749) | (4,473) | (4,795) |
| Total non-current liabilities | | (127,012) | (125,260) | (125,107) |
| **Total liabilities** | | (150,776) | (141,052) | (138,637) |
| **Net assets** | | 169,272 | 128,596 | 148,633 |
| **Equity** | | | | |
| Issued share capital | | 38,299 | 34,121 | 38,299 |
| Share premium account | | 29,787 | 31,778 | 29,787 |
| Translation reserve | | (10,079) | (9,507) | (9,822) |
| Retained earnings | | 110,154 | 71,576 | 89,492 |
| | | 168,161 | 127,968 | 147,756 |
| Minority Interests | | 1,111 | 628 | 877 |
| **Total equity** | | 169,272 | 128,596 | 148,633 |

# Consolidated statement of recognised income and expense

for the six months ended 30 June 2008

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Exchange translation differences | (438) | (701) | (1,460) |
| Tax on items taken directly to equity | 179 | 77 | 528 |
| **Net income recognised directly in equity** | (259) | (624) | (932) |
| Profit for the period | 22,755 | 11,858 | 31,997 |
| Share based payment - deferred tax credit | – | 449 | 385 |
| **Total recognised income and expense for the period** | 22,496 | 11,683 | 31,450 |
| Attributable to: | | | |
| Ordinary shareholders | 21,050 | 10,635 | 28,907 |
| Preference shareholders | 1,212 | 1,020 | 2,266 |
| Minority interests | 234 | 28 | 277 |
| | 22,496 | 11,683 | 31,450 |

# Reconciliation of movements in equity

for the six months ended 30 June 2008

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Total recognised income and expense for the period | 22,496 | 11,683 | 31,450 |
| Issue of new ordinary shares by way of placings and open offer (net of costs) | – | 13,027 | 13,027 |
| Issue of new preference shares by way of placings (net of costs) | – | – | 2,180 |
| Dividends to preference shareholders | (1,212) | (1,020) | (2,266) |
| Dividend to ordinary shareholders | (645) | (615) | (1,279) |
| | 20,639 | 23,075 | 43,112 |
| Equity at beginning of period | 148,633 | 105,521 | 105,521 |
| Equity at end of period | 169,272 | 128,596 | 148,633 |

# Consolidated cash flow statement

for the six months ended 30 June 2008

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | 35,623 | 18,696 | 49,386 |
| Depreciation of property, plant and equipment | 1,266 | 1,257 | 1,846 |
| Amortisation of prepaid operating lease rentals | 21 | 69 | 144 |
| Amortisation of sterling and US dollar note issue expenses | 132 | 114 | 242 |
| Biological gain | (7,460) | (2,029) | (8,030) |
| Loss on disposal of property, plant and equipment | 41 | – | 6 |
| Operating cash flows before movements in working capital | 29,623 | 18,107 | 43,594 |
| Increase in inventories | (1,470) | (2,088) | (8,133) |
| (Increase) / decrease in receivables | (2,881) | (1,040) | 1,283 |
| Increase / (decrease) in payables | 2,354 | (2,771) | (583) |
| Exchange translation differences | (101) | (230) | (1,330) |
| Cash generated by operations | 27,525 | 11,978 | 34,831 |
| Taxes paid | (4,170) | (647) | (3,165) |
| Interest paid | (2,215) | (1,424) | (3,490) |
| Net cash from operating activities | 21,140 | 9,907 | 28,176 |
| **Investing activities** | | | |
| Interest received | 603 | 718 | 1,641 |
| Proceeds on disposal of property, plant and equipment | 60 | – | 200 |
| Purchases of property, plant and equipment | (8,643) | (2,674) | (15,010) |
| Expenditure on biological assets | (6,429) | (10,804) | (14,820) |
| Expenditure on prepaid operating leases | (418) | (276) | (3,787) |
| Net cash from investing activities | (14,827) | (13,036) | (31,776) |
| **Financing activities** | | | |
| Preference dividends paid | (1,212) | (1,020) | (2,266) |
| Ordinary dividends paid | (645) | (615) | (1,279) |
| Repayment of borrowings | (500) | (17,083) | (25,833) |
| Repayment of obligations under finance leases | (78) | (201) | (268) |
| Proceeds of issue of preference share capital less expenses | – | – | 2,180 |
| Proceeds of issue of ordinary share capital less expenses | – | 13,027 | 13,027 |
| Issue of sterling notes (net of expenses) | – | 13,195 | 13,438 |
| New bank borrowings drawn | 366 | – | 1,000 |
| Net cash from financing activities | (2,069) | 7,303 | (1) |
| **Cash and cash equivalents** | | | |
| Net increase / (decrease) in cash and cash equivalents | 4,244 | 4,174 | (3,601) |
| Cash and cash equivalents at beginning of period | 34,216 | 37,266 | 37,266 |
| Effect of exchange rate changes | 2 | 387 | 551 |
| Cash and cash equivalents at end of period | 38,462 | 41,827 | 34,216 |

# Notes to the consolidated financial statements

## 1. Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2008 comprise the unaudited financial statements for the six months ended 30 June 2008 and 30 June 2007 together with audited financial statements for the year ended 31 December 2007.

The information shown for the year ended 31 December 2007 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985, 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 237(2) or (3) of the Companies Act 1985.

The condensed consolidated financial statements for the six months ended 30 June 2008 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 2007 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Save as respects to the valuation of the group's biological assets as described in note 9, the accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2008 are the same as those set out in the group's annual report for 2007.

The condensed consolidated financial statements for the six months ended 30 June 2008 were approved by the Board of Directors on 28 August 2008.

## 2. Revenue

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Sales of goods | 46,113 | 23,965 | 57,581 |
| Revenue from services | – | 195 | 19 |
| | 46,113 | 24,160 | 57,600 |
| Other operating income | 4 | – | 6 |
| Investment income | 603 | 718 | 1,641 |
| Total revenue | 46,720 | 24,878 | 59,247 |

## 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 only one business segment and hence no analysis of results by segment is required.

## 5. Finance costs

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Interest on bank loans and overdrafts | 476 | 1,209 | 1,916 |
| Interest on US dollar notes | 1,169 | 1,159 | 2,360 |
| Interest on sterling notes | 2,121 | 2,203 | 4,443 |
| Interest on obligations under finance leases | 9 | 10 | 23 |
| | 3,775 | 4,581 | 8,742 |
| Amount included as additions to biological assets | (1,801) | (2,907) | (5,164) |
| | 1.974 | 1,674 | 3,578 |
| Other finance charges | 204 | 318 | 439 |
| | 2,178 | 1,992 | 4,017 |

## 6. Tax

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Current tax: | | | |
| UK corporation tax | – | – | – |
| Foreign tax | 7,297 | 1,638 | 5,318 |
| Total current tax | 7,297 | 1,638 | 5,318 |
| Deferred tax: | | | |
| Current year | 3,996 | 3,857 | 9,466 |
| Attributable to a reduction in the rate of UK corporation tax | – | 69 | 229 |
| Total deferred tax | 3,996 | 3,926 | 9,695 |
| Total tax | 11,293 | 5,564 | 15,013 |

The element of the deferred tax charge attributable to a reduction in the UK corporation tax rate reflects the reduction in that rate from 30% to 28% and the resultant reduction in net UK deferred tax assets. This reduction has been reflected in prior periods in the income statement, the statement of recognised income and expense or directly to equity, as appropriate.

# Notes to the consolidated financial statements continued

## 7. Earnings per share

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Earnings for the purpose of earnings per share* | 21,307 | 10,810 | 29,453 |

* being net profit attributable to ordinary shareholders

| | '000 | '000 | '000 |
|---|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 32,574 | 31,503 | 32,044 |
| Effect of dilutive potential ordinary shares | 854 | 805 | 837 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 33,428 | 32,308 | 32,881 |

## 8. Dividends

| | 30 June 2008 $'000 | 30 June 2007 $'000 | 31 December 2007 $'000 |
|---|---|---|---|
| Amounts paid and recognised as distributions to equity holders: | | | |
| Preference dividends of 9p per share per annum | 1,212 | 1,020 | 2,266 |
| Ordinary dividends | 645 | 615 | 1,279 |
| | 1,857 | 1,635 | 3,545 |

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.

## 9. Biological assets

| | 30 June 2008 $'000 | 30 June 2007 $'000 | 31 December 2007 $'000 |
|---|---|---|---|
| Beginning of period | 166,347 | 143,496 | 143,496 |
| Additions to planted area and costs to maturity | 6,723 | 10,804 | 14,821 |
| Net biological gain | 7,460 | 2,029 | 8,030 |
| End of period | 180,530 | 156,329 | 166,347 |
| Net biological gain comprises: | | | |
| Gain arising from changes in fair value attributable to physical changes | 7,460 | 2,029 | 8,030 |
| Gain / (loss) arising from changes in fair value attributable to price changes | – | – | – |
| | 7,460 | 2,029 | 8,030 |

The valuation of the group's biological assets as at 30 June 2008 assumed a discount rate of 16 per cent (2007: 17.5 per cent) in the case of PT REA Kaltim Plantations ("REA Kaltim") and 19 per cent (2007: 19 per cent) in the case of all other group companies. With the estates owned by REA Kaltim continuing to approach full maturity, the directors are of the opinion that the risks attaching to the projection of future crops from REA Kaltim's estates have reduced and they have accordingly reduced the discount rate utilised in valuing those estates. The effect of this change has been to increase the biological gain for the six months to 30 June 2008 by $5.6 million. The discount rate for the valuation of the group's other estates has been left unchanged at 19 per cent, the rate applied for 2007.

## 10. Capital expenditure on property, plant and equipment and capital commitments

In the period there were additions to property plant and equipment of $8.6 million (2007: $2.7 million).

Capital commitments contracted, but not provided for by the group, amounted to $0.5 million (31 December 2007: $4.1 million).

## 11. Issuance of debt securities and equity securities

There were no issues of debt securities or equity securities during the period. During the prior year interim period, 1,500,000 ordinary shares were issued, fully paid, by way of a placing at 450p per share, and £7,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") were issued for cash by a subsidiary, REA Finance B.V. ("REAF") at 99.6574 per cent of par.

## 12. Movements in net borrowings

| | 6 months to 30 June 2008 $'000 | 6 months to 30 June 2007 $'000 | Year to 31 December 2007 $'000 |
|---|---|---|---|
| Change in net borrowings resulting from cash flows: | | | |
| Increase / (decrease) in cash and cash equivalents | 4,244 | 4,174 | (3,601) |
| Decrease in borrowings | 134 | 17,083 | 24,833 |
| | 4,378 | 21,257 | 21,232 |
| Issue of US dollar notes less amortised expenses | (49) | (46) | (94) |
| Issue of sterling notes less amortised expenses | (82) | (13,262) | (13,587) |
| Lease repayments | 78 | 201 | 268 |
| New leases | – | – | (171) |
| | 4,325 | 8,150 | 7,648 |
| Currency translation differences | 28 | 848 | 843 |
| Net borrowings at beginning of year | (52,041) | (60,532) | (60,532) |
| Net borrowings at end of year | (47,688) | (51,534) | (52,041) |

## 13. Related parties

During the first six months of 2008 no new related party transactions have taken place, and there have been no changes to the related party transactions of which details were contained in the company's 2007 annual report, having in either case a material effect on the financial position or performance of the group during that period.

## 14. Post balance sheet events

On 11 July 2008, the group acquired the whole of the issued share capital of PT Putra Bongan Jaya ("PBJ") for a cash consideration of $3.4 million, settlement of which was completed on 27 August 2008. PBJ holds a land allocation of 16,640 hectares.

On 12 August 2008, the group concluded arrangements for the acquisition of rights to extract coal from a mineral concession in East Kalimantan for a consideration of $1.35 million, which has been paid in cash.

## 14. Post balance sheet events - continued

Arrangements will be made for local Indonesian minority participation in the ownership of PBJ and the newly acquired coal concession.

On 21 August 2008, a subsidiary REA Finance B.V. ("REAF") created a further £28,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("further notes") ranking pari passu, and forming a single series, with the £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REAF then already in issue. An initial tranche of £15,000,000 nominal of further notes was issued on 22 August 2008 for cash at a subscription price of 99.8682 per cent of par.