

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000.**

This document comprises a prospectus relating to R.E.A. Holdings plc covering 2,828,000 ordinary shares of 25p each and 3,000,000 9 per cent cumulative preference shares of £1 each in the capital of R.E.A. Holdings plc, prepared in accordance with the Prospectus Rules of the Financial Services Authority made under section 73A of the Financial Services and Markets Act 2000. This document has been approved by, and filed with, the Financial Services Authority in accordance with the Prospectus Rules.

If you have sold or otherwise transferred all of your ordinary shares and warrants in R.E.A. Holdings plc, please send this document and the accompanying application form and form(s) of proxy to the purchaser or other transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Applications have been made to the Financial Services Authority and to the London Stock Exchange for the new ordinary shares of 25p each and new 9 per cent cumulative preference shares of £1 each in the capital of R.E.A. Holdings plc proposed to be issued pursuant to the proposals to be admitted to, respectively, the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that such admissions will become effective, and that dealings in the new shares will commence, as regards the new ordinary shares, on 19 April 2006 and, as regards the new preference shares, on 22 May 2006.

**Particular attention is drawn to the risks described in "Risk factors" in Part II of this document.**

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## **R.E.A. Holdings plc**

(Incorporated in England and Wales under the Companies Act 1985 with registered number 671099)

### **Proposed placing and open offer**

of

up to 2,828,000 new ordinary shares of 25p each in the capital of the company to be issued fully paid at 260p per share

together with

proposals involving (i) a placing of up to 3,000,000 new 9 per cent cumulative preference shares of £1 each in the capital of the company to be issued fully paid at 105p per share, (ii) the early exercise of the subscription and conversion rights attaching to the warrants of the company and (iii) a reduction of capital

and

notices of a meeting of warrant holders and of an extraordinary general meeting of R.E.A. Holdings plc both convened for 18 April 2006

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Deloitte Corporate Finance, which is regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for R.E.A. Holdings plc in connection with matters referred to in this document and for no one else and will not regard any other person as its client or be responsible to any person other than R.E.A. Holdings plc for providing the protections afforded to clients of Deloitte Corporate Finance or for giving advice to any such person in relation to this prospectus or any matter referred to herein.

Notices of the meeting of warrant holders and of the extraordinary general meeting of R.E.A. Holdings plc convened for 18 April 2006 are set out at the end of this document. Forms of proxy for use in connection with each of such meetings are enclosed with copies of this document sent to the persons entitled to attend that meeting. All such persons are urged to complete the forms of proxy and to return the same to the company's registrars, Capita Registrars, of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event so as to arrive by not later than, respectively, 10.15 am and 10.30 am on 16 April 2006.

**The open offer is restricted to qualifying holders. The latest time for acceptance and payment in full under the open offer is 3.00 pm on 12 April 2006. The procedure for acceptance and payment is set out in Part IV of this document and in the application forms.**

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## **PART I. SUMMARY**

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**The following summary information should be read as an introduction to this document. Any decision to invest in new shares should be based on consideration of this document as a whole by the prospective investor.**

**Where a claim relating to the information contained in this document is brought before a court in a member state of the European Economic Area, the claimant investor might, under the national legislation of the member state where the claim is brought, have to bear the costs of translating this document before the legal proceedings are initiated.**

**In each member state of the European Economic Area that has implemented the Prospectus Directive (Directive 2003/71/EC), civil liability attaches to the persons responsible for this summary (being the directors and the company), including any translation of it, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.**

### **Business of the group**

The entire business of the group is represented by oil palm operations in East Kalimantan, Indonesia. The operational areas already allocated to the group currently comprise 30,106 hectares under full economic ownership by the group and 16,030 hectares held on a joint venture basis with a local investor. A second joint venture area of some 20,000 hectares is under active negotiation.

The operational areas lie either side of the Belayan river, a tributary of the Mahakam river, one of the major river systems of South East Asia. At present, access to the operations can be obtained only by river (or air) but the recent completion of a new bridge over the Mahakam should eventually permit road access as well. At 31 December 2005, the productive component of the operations comprised 13,085 hectares of mature oil palm all deriving from plantings initiated between 1994 and 1997.

Pursuant to an extension planting programme established in 2003, a further 3,000 hectares of oil palm was planted out in 2004. It had been planned to plant out a further 4,500 hectares during 2005, but land clearing operations were delayed by representations from certain affected local villagers who sought to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected individuals had been successfully allayed, by abnormally high rainfall in the last quarter of 2005. As a result, land clearing completed by end 2005 amounted to 2,250 hectares. For 2006, it is hoped to complete the originally planned 2005 development programme and to plant out a further 3,750 hectares.

Provided that crude palm oil ("CPO") prices continue at present levels or better and that the ordinary share placing and open offer are duly completed, the directors, while recognising that such a target is ambitious, intend that in 2007 the group should aim to plant a total of 7,000 hectares. It is the directors' intention that, beyond 2007, the group should continue its expansion and should seek to develop all undeveloped land available to the group that is suitable for planting with oil palms, as rapidly as financial and logistical constraints (including appropriate provision for dividends) permit.

All oil palm fresh fruit bunches ("FFB") harvested from the present mature area are processed in the group's oil mill (located within the operational areas) which has a capacity of 80 tonnes per hour. CPO and palm kernel output from the mill is then transferred in the group's barges down the Belayan and Mahakam rivers to the group's storage and transshipment terminal, downstream of the port of Samarinda. From here, the CPO and palm kernels are transferred to ocean going vessels and delivered to both domestic and international buyers. A second oil mill and a palm kernel crushing plant are under construction, with completion expected later in 2006.

FFB production from the group's operations has risen over the past five years from 123,992 tonnes in 2001 to a level of 313,000 tonnes in 2005. FFB production for 2006 has been budgeted at 353,000 tonnes. The directors believe that a fully mature FFB crop in the range of 350,000 to 370,000 tonnes per annum should be achievable from the present mature area. From 2007 onwards, crops should further increase as the areas being planted under the extension planting programme progressively reach maturity. In years when cropping is not materially affected by abnormal weather conditions, a CPO extraction rate of in excess of 24 per cent has consistently been achieved. The palm kernel extraction rate was 4.0 per cent in 2005.

The group's revenues are dependent upon CPO prices. Over the past ten years, the average annual CPO price CIF Rotterdam, as derived from prices published by Oil World, has moved between a high of \$671 per tonne and a low of \$286 per tonne. The average price over the ten years as a whole has been \$451 per tonne. In 2006 to-date, prices have traded in the \$405 to \$450 range.

## **Proposals**

It is proposed that:

- the company raise up to £7.35 million (before expenses) by way of a placing and open offer of up to 2,828,000 new ordinary shares at a subscription price of 260p per share;
- the company raise up to a further £3.15 million (before expenses) by way of a placing of up to 3,000,000 new preference shares at a subscription price of 105p per share;
- the terms of the warrants be amended by reducing the warrant exercise price from 73.5p to 60p (so that each warrant would entitle the holder to subscribe one ordinary share at a price of 60p either by payment of 60p in cash or by surrender of 0.60 preference shares), adding two further warrant exercise dates (namely 31 August 2006 and 29 September 2006) and shortening the period during which each warrant holder may exercise his warrant rights; to the extent that a holder of warrants does not exercise his warrant rights on or before 29 September 2006, his warrants will be exercised on his behalf in October 2006, the resultant ordinary shares sold and the net proceeds of sale, after deduction of the cost of subscribing such ordinary shares, distributed to him; and
- the capital of the company be reduced by £6 million in aggregate by cancellation of the capital redemption reserve and by reduction of the amount standing to the credit of the share premium account.

The proposals are subject to several conditions including necessary approvals from shareholders and admission of the new ordinary shares and, as respects the preference share placing, the new preference shares to the Official List and to the London Stock Exchange's market for listed securities. The proposed amendment of warrant terms and proposed reduction of capital are further conditional upon necessary approvals from warrant holders and, in the case of

the reduction of capital, to confirmation by the High Court. The preference share placing is further conditional upon the reduction of capital becoming effective.

### **Reasons for the proposals**

In November 2001, following differences between the group and the MEZ group, an original investor in the East Kalimantan operations through Makassar (now a subsidiary of the company), the MEZ group initiated legal proceedings in New York against the company and two directors. Subsequently, the MEZ group threatened further proceedings in Jersey against the group and directors and the group threatened proceedings against the MEZ group.

Pursuant to a settlement agreement made on 23 January 2006, all actual and threatened claims between the group and directors of the one part and the MEZ group of the other part have been settled. As a term of settlement, the group paid \$6 million to the MEZ group as additional interest on former loans to Makassar's subsidiary, REA Kaltim, and in settlement of various claims by the MEZ group for fees for past services and financial support, and the company acquired the 12.3 per cent minority interest in the issued ordinary share capital of Makassar owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of dollar notes.

The issue of \$19 million nominal of dollar notes pursuant to the settlement agreement resulted in a significant increase in the group's net indebtedness; prudence dictates that either such net indebtedness be progressively reduced or the scale of the group's operations be expanded to an extent sufficient to support the continuance of net indebtedness at the increased level. In agreeing the terms of the settlement agreement and the increase in net indebtedness that those terms entailed, the directors had concluded that it would be in the best interests of the company and its shareholders as a whole to expand the group's operations. They remain of that view. The ordinary share placing and open offer are designed to facilitate expansion by providing capital to permit acceleration of previous extension planting plans to the extent outlined under "Business of the group" above.

With the completion of the settlement agreement, the whole of the issued share capital of Makassar is now owned by the company and a subsidiary of the company, MP. However, some 60 per cent of the preference share capital of MP is owned outside the group. The directors consider that the group structure should now be further simplified by transferring into the direct ownership of the company the Makassar shares that are currently owned by MP and then winding up MP. The preference share placing is proposed with the intention that the net proceeds of that placing be applied in substantially funding the net cash outflow from the group that would result from winding up MP (being the liquidation distribution to which the third party holders of MP preference shares would be entitled in the winding up).

The directors also believe that the continued existence of the warrants as a separate listed security of the company has become an unnecessary complication in the capital composition of the company. The warrants currently stand at a very substantial premium to their exercise price and comprise a small and relatively illiquid issue. The proposal to amend the terms of the warrants is designed to address this situation by procuring the early exercise of the warrants on a basis that is, in the opinion of the directors, fair to both warrant holders and shareholders.

The proposed reduction in the capital of the company is aimed at reducing the likelihood of the company being prevented by legal rather than commercial constraints from paying dividends (particularly preference dividends).

**Placings and open offer**

Mirabaud has agreed with the company that Mirabaud will use its reasonable endeavours to place on the company's behalf 2,413,000 of the 2,828,000 new ordinary shares proposed to be issued pursuant to the ordinary share placing and open offer, with 927,331 of those shares being subject to clawback to be available, with the 415,000 balance of the 2,828,000 new ordinary shares, to meet applications under the open offer. That offer is being made to qualifying holders on the proportionate basis of:

**1 new ordinary share for every 20 ordinary shares and/or warrants held at the close of business on 21 March 2006**

**The open offer is not a rights issue and new ordinary shares that are not taken up will not be sold in the market for the benefit of qualifying holders.**

Mirabaud has also agreed with the company that Mirabaud will use its reasonable endeavours to place on the company's behalf 3,000,000 new preference shares.

**Risk factors**

The value of the new ordinary shares and new preference shares may be adversely affected by changes in economic conditions and by changes or perceived changes in the group's performance and prospects, including speculation about the group's business. Furthermore, the group has substantial indebtedness which ranks for repayment ahead of any rights of the preference shares and ordinary shares to a return of capital. Ordinary shares rank behind preference shares on a return of capital.

In addition, the group's operations, by their nature, carry a number of risks which could affect future operating performance. The more material of these risks include:

- the exposure of the group's operations to climatic conditions, pests and diseases;
- 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 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 the development of an oil palm plantation in a region that elsewhere includes substantial areas of unspoilt rain forest; and
- more general 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.

**Summary historic financial information**

The following table provides summary financial information concerning the group for the three years ended 31 December 2004 and has been extracted without material adjustment from the statutory accounts of the company included in the annual reports of the company for the three years ended 31 December 2004. Such statutory accounts were prepared in accordance with UK GAAP and were audited. The summary financial information itself has not been audited.

	2002 £'000	2003 £'000	2004 £'000
<b>Summary of results (before taxation and minority interests)</b>			
Turnover	<u>12,831</u>	<u>13,781</u>	<u>16,052</u>
Earnings before interest, tax, depreciation and amortisation	3,979	6,190	8,288
Depreciation and amortisation	(1,616)	(2,114)	(2,125)
Group operating profit	2,363	4,076	6,163
Disposal of fixed assets and investments	(326)	(257)	7
Interest payable and similar charges, less interest receivable	(581)	(1,749)	(1,485)
Profit on ordinary activities before taxation and minority interests	<u>1,456</u>	<u>2,070</u>	<u>4,685</u>
<b>Summary of net assets</b>			
Tangible fixed assets	49,603	50,238	52,174
Current assets	10,557	11,846	6,683
Creditors: falling due within one year	(13,765)	(15,244)	(6,631)
Convertible debt	(3,419)	(3,463)	(2,837)
Other creditors: falling due after more than one year	(21,134)	(15,312)	(13,402)
Provision for deferred tax	-	(288)	(2,107)
	<u>21,842</u>	<u>27,777</u>	<u>33,880</u>

**Summary interim financial information**

The following table provides summary financial information concerning the group for the six months ended 30 June 2005, with comparative figures for the six months to 30 June 2004 and the year to 31 December 2004 and has been compiled from figures extracted without material adjustment from the interim report of the company for the six months ended 30 June 2005, which was prepared in accordance with IFRS. Neither such interim report nor this summary financial information has been audited.

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
<b>Summary of results (before taxation and minority interests)</b>			
Revenue	<u>8,209</u>	<u>8,806</u>	<u>16,052</u>
Earnings before interest, tax, depreciation and movement on biological assets	3,716	4,623	8,452
Depreciation	(391)	(233)	(648)
Change in fair value of biological assets	<u>2,410</u>	<u>1,827</u>	<u>2,986</u>
Profit from operations	5,735	6,217	10,790
Investment income and finance costs	(310)	(1,058)	(1,599)
Profit before taxation and minority interests	<u>5,425</u>	<u>5,159</u>	<u>9,191</u>
<b>Summary of net assets</b>			
Non-current assets	75,944	68,846	67,688
Current assets	6,515	7,439	6,689
Current liabilities	(8,265)	(5,696)	(6,773)
Non-current liabilities	(32,994)	(37,358)	(32,268)
	<u>41,200</u>	<u>33,231</u>	<u>35,336</u>

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## **PART II. RISK FACTORS**

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- 1. General**

Before making any investment decisions, prospective investors should carefully consider all of the information in this document including the risks and uncertainties described below. Those risks and uncertainties are considered by the directors to be the material risk factors currently faced by the group or applicable to an investment in the company's shares. Such risks and uncertainties are not the only ones currently so faced or applicable and other risks and uncertainties not currently known to the directors or that the directors currently deem immaterial may also have a material adverse effect on the group or on such an investment.
  
- 2. Investment risk**

The new ordinary shares and new preference shares represent investments in the capital of the company. The value of such investments may be affected by changes in economic conditions including levels of interest rates, political events and trends, tax laws and rates of inflation. The value of an investment in the company's shares may also be affected by changes or perceived changes in the group's performance and prospects reflecting announcements made and reports published by the company, speculation about the group's business in the press, media or the investment community or the publication by investment analysts of research reports concerning the group.

The group has substantial indebtedness and that indebtedness ranks for repayment ahead of any rights of the preference shares and ordinary shares to a return of capital. Ordinary shares rank behind preference shares on a return of capital. Although the new preference shares carry a cumulative right to annual dividends at a fixed rate, such dividends are payable only when declared by the directors.

The value of shares can go down as well as up and past performance is not necessarily a guide to the future. Furthermore, the market in the company's shares has limited liquidity.
  
- 3. Agricultural risk**

As in any agricultural operation, there are risks that crops may be affected by pests, diseases and weather conditions. Agricultural best practice can to some extent mitigate the risk of outbreaks of pests and diseases but such risks cannot be entirely removed. 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.

Rainfall on the group's estates has historically been in the range of 3,500 to 5,000 millimetres per annum, well above the level of 2,000 millimetres per annum that is considered the minimum for an oil palm plantation.

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

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

CPO and palm kernels are primary commodities and as such are affected by levels of world economic activity. This may lead to significant price swings although, as noted under "Sales" in Part V below, 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 or significant 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. The directors hope that the importance of CPO to Indonesia's US dollar earning exports and to the welfare of smallholder farmers will discourage a repetition of such restrictions and imposts. Currently, there are no restrictions on the export of CPO and duty on export sales is levied at a rate of \$6.30 per tonne.

**5. Expansion risk**

As explained under "Scope of operations" in Part V below, the group is planning significant extension planting of oil palm. The directors expect that the planned programme can be funded from available group cash resources following completion of the ordinary share placing and open offer and subsequent operational cash flows. However, future cash flows are dependent upon a number of factors. Should such cash flows fall short of expectations and should the group be unable to arrange alternative funding, the planned extension planting programme, upon which the group's continued growth is critically dependent, may have to be curtailed.

If the programme did have to be curtailed, the directors consider that it is likely that, for the period of such curtailment, the periodic movements on restatement of biological assets at fair value would be less positive or more negative than they would otherwise have been. Group income, as stated under IFRS, would be affected accordingly.

**6. Currency risk**

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. Moreover all of the group's borrowings and a substantial component of the group's costs (including fertiliser and machinery inputs) are also US dollar denominated or linked. The group therefore faces two principal currency risks. First, those components of group costs that arise in Indonesian rupiah and sterling can, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. Secondly, the sterling translated amounts of the group's results and net financial position may be adversely affected by sterling strengthening against the US dollar. The directors consider that these risks are inherent in the group's business and do not normally hedge against such risks on the basis that, in the opinion of the directors, such hedging would not be cost effective.

**7. Environment risk**

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 unable 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 criticised by such groups.

The directors would hope that conservation groups would take a positive view of the group's commitment to sustainable oil palm development and track record of obtaining, and following, recommendations from respected environmental experts and of consulting with independent organisations concerned with conservation in East Kalimantan in formulating an environmental master plan for the group's extension planting programme.

**8. Country risk**

All of the group's operation are located in Indonesia and the group is therefore dependent on the political and economic situation in Indonesia.

Although the political and economic problems of Indonesia in the years immediately following 1997 had a major impact on the group's operations in terms of their access to funding, such problems had almost no effect on the day to day conduct of the operations. The existence of security risks cannot, of course, be ignored but the group

has always endeavoured to mitigate those risks. The group does not now have and has never had any political affiliations. 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 or otherwise seek to restrict the group's freedom to manage its operations. However, there can be no certainty as to this.

**9. Locality risk**

The operations of the group could be seriously disrupted if there were to be a material breakdown in the relationships 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. The directors believe that the group's operations have been a source of increased prosperity to surrounding villages and that the group has reasonable relations with those villages. The group has made good progress since 2001 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 land areas of operation were acquired with the knowledge and support of the local authorities and development has been kept wholly within the areas to which full registered title has been obtained. 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 pays compensation to the affected parties. The negotiation of compensation payments can involve a considerable number of local individuals with differing views which in the past has caused, and is likely to continue periodically to cause, delays to the extension planting programme. The group has to-date been successful in managing such periodic delays so that they have not, in overall terms, materially disrupted the group's extension planting programme. Nevertheless, there is a continuing risk that such delays could do so and the directors are aware of other plantation groups operating in Indonesia who have been forced to postpone planting programmes as a result of difficulties in settling compensation payments.

The greater autonomy that has been given by the central government of Indonesia to the provincial authorities in recent years has brought with it some uncertainties. In East Kalimantan, the directors see the consequent risk as one of higher local taxes but believe that such taxes, whilst obviously unwelcome, would be likely to be at a level that the group could absorb. Again, there can be no certainty as to this.

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## PART III. LETTER FROM THE CHAIRMAN

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### **B.E.A. Holdings plc**

*(Registered in England and Wales no 671099)*

*Registered office:*

Third Floor  
40-42 Osnaburgh Street  
London NW1 3ND

22 March 2006

*To the holders of ordinary shares and of warrants and, for information only, to the holders of preference shares*

Dear Sir or Madam

#### **1. Introduction**

The purpose of this document is to provide you with information regarding proposals that:

- the company raise up to £7.35 million (before expenses) by way of a placing and open offer resulting in the issue of up to 2,828,000 new ordinary shares of 25p each in the capital of the company, to be issued fully paid at a subscription price of 260p per share;
- the company raise up to a further £3.15 million (before expenses) by way of a placing of up to 3,000,000 new 9 per cent cumulative preference shares of £1 each in the capital of the company, to be issued fully paid at a subscription price of 105p per share;
- the terms of the warrants be amended so as to procure the early exercise of warrant rights; and
- the capital of the company be reduced by £6 million in aggregate by cancellation of the capital redemption reserve and by reduction of the amount standing to the credit of the share premium account.

As implementation of such proposals will require certain approvals from the holders of warrants and from shareholders, notices are set out at the end of this document convening a meeting of warrant holders and an extraordinary general meeting of the company, both to be held on 18 April 2006 for the purposes of considering and, if thought fit, passing the resolutions necessary to implement the proposals.

The resolutions will provide, in particular, for approval by shareholders of the price at which it is proposed that the new ordinary shares the subject of the ordinary share placing and open offer be issued, namely 260p per share which represents a discount of 19 per cent on the closing mid market quotation for the existing ordinary shares as derived from the Daily Official List of the London Stock Exchange on 13 February 2006 (being the day immediately preceding the date upon which the intention to make the ordinary share placing and open offer at a price of 260p per share was announced).

#### **2. Background**

The entire business of the group is represented by oil palm operations in Indonesia. These operations are owned through Makassar which was established in 1989 to act as a vehicle to fund the setting up and development of the operations. The initial funding was raised principally in the form of equity and preferred capital with the group providing half of the initial equity. The balance of that equity and the entire preferred capital was provided by third party investors. The initial

funding was later augmented with further equity capital and loans raised from the then shareholders of Makassar (including the company) and with bank loans sourced from Indonesian banks.

In 2001, difficulties arose in the relationship between the company and the principal third party investor in Makassar, the MEZ group, which had at that time capital commitments to Makassar and its subsidiary, REA Kaltim, substantially equivalent to those of the company. These difficulties culminated in November 2001 with the MEZ group initiating legal proceedings in New York against the company and two of its directors, claiming, among other things, an entitlement to be paid a return of 30 per cent per annum in respect of loans provided to REA Kaltim, by, or with the support of, the MEZ group.

In April 2002, the company acquired the whole of the issued ordinary share capital and a proportion of the issued preference share capital of a newly established company, MP, which, immediately prior to its acquisition by the company, had acquired all of the issued shares of Makassar other than those owned by the company and the MEZ group. This resulted in the company and MP together owning 51 per cent of the issued ordinary share capital of Makassar. Subsequent rights issues by Makassar, in which the company and MP took up their rights entitlements but the MEZ group did not, increased the combined ownership of the issued ordinary share capital of Makassar by the company and MP to 87.7 per cent. During 2004 and 2005, all loans provided to REA Kaltim by, or with the support of, the MEZ group were repaid.

Following the Makassar rights issues, the MEZ group threatened legal proceedings in Jersey against the company, MP and those three directors of the company who are also directors of Makassar, on grounds principally that the affairs of Makassar were being conducted in a manner unfairly prejudicial to the interests of the MEZ group. The company in turn indicated that the group was giving consideration to the pursuit of various potential claims against the MEZ group.

Following mediated discussions commencing in September 2005, the company and the MEZ group agreed, pursuant to a settlement agreement made on 23 January 2006, to settle all actual and threatened litigation claims between the group and the MEZ group. The settlement agreement was completed on 21 February 2006. Pursuant to its terms:

- all actual and potential claims relating to Makassar and REA Kaltim between the group and directors of the company on the one part and the MEZ group on the other part were released and the New York proceedings commenced by the MEZ group were dismissed with each side bearing its own costs;
- REA Kaltim paid \$6 million to the MEZ group as additional interest on former loans to REA Kaltim and in settlement of various claims by the MEZ group for fees for past services and financial support; and
- the company acquired the 12.3 per cent minority interest in the issued ordinary share capital of Makassar owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of dollar notes.

In addition, pursuant to a supplemental rights agreement signed at the same time as the settlement agreement, it was agreed that, subject to certain limitations, the company has the right, exercisable at any time and from time to time, to purchase the dollar notes issued pursuant to the settlement agreement and that the holders of such dollar notes have the right, exercisable in certain limited situations, to require the company to purchase those dollar notes, in each case 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. Further details of the settlement agreement and such supplemental rights agreement are set out at sub-paragraphs (5) and (6) under "Material contracts" in Part VIII below.

The \$6 million cash payment made by REA Kaltim as described above was funded in the first instance from the group's own cash resources. This cash outlay was then replaced by the net cash proceeds of £3.44 million, equivalent to some \$6 million, accruing to the company from the issue of 1,372,000 ordinary shares fully paid at a subscription price of 260p per share by way of a placing completed on 22 February 2006 and arranged on the company's behalf by Mirabaud pursuant to the agreement summarised at sub-paragraph (7) under "Material contracts" in Part VIII below.

### 3. Reasons for the proposals

#### *Ordinary share placing and open offer*

Ahead of the negotiations that resulted in the settlement agreement, the group had built up some cash reserve against the possibility that resolution of the actual and threatened litigation claims from the MEZ group would make demands on the group's cash resources. In the event, this precaution proved unnecessary as the cash component of the settlement agreement has been fully financed by the recent placing of 1,372,000 ordinary shares referred to under "Background" above. As a result, the group's immediate financial position is relatively comfortable with current liquidity (as detailed under "Capitalisation and indebtedness" in Part VI below) equivalent to some \$13 million.

That liquidity is more than enough for the immediate requirements of the group's established operations. However, the directors believe that the group's ability to utilise its existing land bank and operational base to expand those operations represents a significant opportunity. They propose that the group should capitalise on that opportunity by accelerating its previous extension planting plans to the extent detailed under "Scope of operations" in Part V below. Extension planting at the rate now proposed will require additional capital; the ordinary share placing and open offer are designed to provide that capital.

In this context, the issue of an additional \$19 million nominal of dollar notes pursuant to the settlement agreement is also relevant. That issue has resulted in a significant increase in the group's net indebtedness; prudence dictates that either such net indebtedness be progressively reduced (albeit that the term of the indebtedness would permit such reduction over an extended period) or the scale of the group's operations be expanded to an extent sufficient to support the continuance of net indebtedness at the increased level. In agreeing the terms of the settlement agreement and the increase in net indebtedness that those terms entailed, the directors had concluded that it would be in the best interests of the company and its shareholders as a whole to expand the group's operations. They remain of that view.

As noted under "Introduction" above, it is proposed that the new ordinary shares the subject of the ordinary share placing and open offer be issued at a price of 260p per share. The directors recognise that that price represents a larger discount to the current market value of the existing ordinary shares than might be considered normal for a placing and open offer. However, the market value of the existing ordinary shares was lower in mid January 2006 when the company initiated discussions through Mirabaud with potential institutional placees of new ordinary shares; at that time a price of 260p per share represented a discount of less than 10 per cent to market value. Having obtained informal commitments to the ordinary share placing on the basis of an indicative price of 260p per share, the directors consider that the company should not now go back on those commitments (albeit that they were not legally binding) and seek to renegotiate the issue price. That is because the directors believe that, were the company to do so, it would be damaging to the company's reputation and quite possibly counterproductive in that it might well antagonise potential placees to an extent that they declined to participate in the ordinary share placing.

Accordingly, the directors believe that it is in the best interests of the company and its shareholders as a whole to continue with the ordinary share placing and open offer at the price of 260p per share.

### *Preference share placing*

With the completion of the settlement agreement, the whole of the issued share capital of Makassar is now owned by the company and MP. That simplifies the structure of the group and, in the opinion of the directors, makes it appropriate to rationalise the structure still further by transferring MP's holdings of Makassar shares into the direct ownership of the company and eliminating MP.

MP was acquired in 2002 just ahead of the issue of the company's former 4 per cent convertible loan stock 2012 and, upon issue of that stock, MP became an essential component of the arrangements by which the stock was secured. Following the exchange of the stock in 2005 for new ordinary shares and dollar notes, the security arrangements in question were released. Thus MP no longer serves any useful purpose. Furthermore, the fact that some 60 per cent of the preference share capital of MP is held outside the group means that MP complicates the group structure.

The preference share placing is proposed with the intention that the net proceeds of that placing will be applied in substantially funding the net cash outflow from the group that would result from winding up MP (being the payment of dividend arrears and repayment of capital to which the third party holders of MP preference shares would be entitled in the winding up). The new preference shares are therefore designed, in effect, to replace the existing minority interest in the preference share capital of MP.

### *Amendment of warrant rights*

The directors also believe that the continued existence of the warrants as a separate listed security of the company has become an unnecessary complication in the capital composition of the company. The warrants currently stand at a very substantial premium to their exercise price and comprise a small and relatively illiquid issue. The proposal to amend the terms of the warrants is designed to address this situation by procuring the early exercise of the warrants on a basis that is, in the opinion of the directors, fair to both warrant holders and shareholders.

### *Reduction of capital*

Finally, and as explained in greater detail under "Reduction of capital" below, the directors are proposing that the capital of the company be reduced to the extent of £6 million in aggregate by cancellation of the capital redemption reserve and reduction in the amount standing to the credit of the company's share premium account. This is designed to reduce the likelihood of the company being prevented by legal rather than commercial constraints from paying dividends (particularly preference dividends).

#### **4. Ordinary share placing and open offer**

Pursuant to the ordinary share placing and open offer, the company is seeking to raise up to £7.35 million (before expenses) by the issue of up to 2,828,000 new ordinary shares fully paid at a price of 260p per share. Of these new ordinary shares, Mirabaud has agreed with the company that Mirabaud will use its reasonable endeavours to place 2,413,000 shares on the company's behalf at 260p per share. The balance of 415,000 new ordinary shares are being reserved for issue under the open offer.

In addition to the 415,000 new ordinary shares so reserved, 927,331 of the new ordinary shares to be placed will be subject to clawback to meet applications to subscribe new ordinary shares pursuant to the open offer if and to the extent that the number of new ordinary shares for which application is made exceeds 415,000. It is proposed that the 1,485,669 balance of the new ordinary shares the subject of the ordinary share placing be placed firm.

The open offer has not been underwritten but is supported to the extent described under "Support for the open offer" below.

Under the open offer, the company is inviting subscription by qualifying holders of up to 1,403,042 new ordinary shares at 260p per share, payable in full on application, on and subject to the terms and conditions set out in this document and in the applications forms, on the basis of:

**1 new ordinary share                      for every 20 ordinary shares and/or  
warrants held by them at the close of  
business on 21 March 2006**

and so in proportion for any other number of ordinary shares and/or warrants then held by them. Entitlements to new ordinary shares will be rounded down to the nearest whole number of new ordinary shares.

The new ordinary shares to be issued pursuant to the ordinary share placing and open offer will upon issue rank *pari passu* in all respects with the ordinary shares already in issue. The ordinary shares, which are denominated in pounds sterling, are already admitted to trading on the London Stock Exchange's market for listed securities with International Security Identification Number GB0002349065.

No expenses of or incidental to the ordinary share placing or open offer will be charged to subscribers of new ordinary shares and the new ordinary shares will normally be registered by the company in the names of the applicants therefor free of stamp duty and stamp duty reserve tax.

The open offer is, and the ordinary share placing will be, conditional upon, *inter alia*, the passing of the necessary resolution of the company in general meeting and upon admission of the new ordinary shares to the Official List and to trading on the London Stock Exchange's market for listed securities. The open offer is also conditional upon the agreement between Mirabaud and the company as regards the ordinary share placing remaining in full force and effect until such time as the open offer becomes otherwise unconditional. Up to that time, any placing commitments pursuant to such agreement may be terminated by Mirabaud under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new ordinary shares or to prejudice the success of the ordinary share placing.

The new ordinary shares will be issued in registered form and may be held in uncertificated form.

Further details of the open offer, including the procedure for application and payment, are set out in Part IV below and in the application forms. The attention of overseas holders of ordinary shares or warrants is drawn to the information provided under "Overseas holders of ordinary shares or warrants" in Part IV below.

The open offer is being made to holders of warrants on a basis equivalent to that that would have applied had the exercise rights attaching to the warrants been exercisable and duly exercised immediately prior to 21 March 2006. Accordingly, pursuant to the provisions of the instrument constituting the warrants, no adjustment will be made upon completion of the open offer to the terms of exercise attaching to the warrants.

## **5. Support for the open offer**

Pursuant to an agreement dated 22 March 2006, as summarised in sub-paragraph (8) under "Material contracts" in Part VIII below, the company's largest shareholder Emba has agreed, subject to satisfaction of the conditions of the open offer, to take up its entitlements to new ordinary shares under the open offer to the extent of 414,799 new ordinary shares (29.6 per cent of the new ordinary shares the subject of the open offer) representing substantially all of the 415,000 new ordinary shares available for subscription under the open offer that have not been placed subject to clawback. Pursuant to the same agreement, Emba has also undertaken not to take up the balance of its entitlements under the open offer

comprising entitlements to subscribe an aggregate of 60,711 new ordinary shares. As a result, the number of placed new ordinary shares that may be the subject of clawback will be 927,331 rather than the theoretical maximum of 988,042 (being the 1,403,042 new ordinary shares the subject of the open offer less the 415,000 new ordinary shares available for subscription under the open offer that have not been placed subject to clawback).

The open offer has not been underwritten. The open offer is not, and the ordinary share placing will not be, conditional upon any minimum level of subscriptions being received but successful implementation of the ordinary share placing combined with the undertaking of Emba concerning the open offer would together ensure subscription of substantially all of the new ordinary shares the subject of the ordinary share placing and open offer.

The directors (together with persons connected with them within the meaning of section 346 of the Act) intend to take up their full entitlements to new ordinary shares pursuant to the open offer amounting to 50,434 new ordinary shares in aggregate (representing 3.6 per cent of the new ordinary shares the subject of the open offer).

#### **6. Preference share placing**

Pursuant to the preference share placing, the company is seeking to raise up to £3.15 million (before expenses) by the issue of up to 3,000,000 new preference shares fully paid at a price of 105p per share.

The new preference shares will upon issue rank *pari passu* in all respects with the preference shares already in issue save that the dividend payable on the new preference shares on 30 June 2006 will be 2¼p per share (to take some account of the fact that the new preference shares will not be in issue for the full six month period to 30 June 2006 and should not therefore receive the full dividend of 4½p per share which will be payable on the existing preference shares in respect of that period). The preference shares, which are denominated in pounds sterling, are already admitted to trading on the London Stock Exchange's market for listed securities with International Security Identification Number GB0007185639. The new preference shares have been assigned the separate International Security Identification Number of GB00B10DR153 pending payment of the dividend due on 30 June 2006. Thereafter, they will have the same International Security Identification Number as the existing preference shares.

No expenses of or incidental to the preference share placing will be charged to subscribers of new preference shares and the new preference shares will normally be registered by the company in the names of the placees thereof free of stamp duty and stamp duty reserve tax.

The preference share placing will be conditional upon, *inter alia*, the passing of the necessary resolution of the company in general meeting, upon the proposed reduction of capital becoming effective (such reduction of capital being conditional upon, *inter alia*, the open offer becoming unconditional) and upon admission of the new preference shares to the Official List and to trading on the London Stock Exchange's market for listed securities. While the agreement between Mirabaud and the company as regards the preference share placing remains unconditional, any placing commitments pursuant to such agreement may be terminated by Mirabaud under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new preference shares or to prejudice the success of the preference share placing.

The new preference shares will be issued in registered form and may be held in uncertificated form.



## **7. Warrant rights**

The company has outstanding 1,548,807 warrants each of which currently entitles the holder to subscribe one ordinary share at a price of 73.5p either by payment of 73.5p in cash or by surrender of 0.735 preference shares. The warrant rights are exercisable on 31 July of each year until 2013.

It is proposed that the terms of the warrants should be amended by:

- reducing the exercise price from 73.5p to 60p so that each warrant would entitle the holder to subscribe one ordinary share at a price of 60p either by payment of 60p in cash or by surrender of 0.60 preference shares;
- adding two additional warrant exercise dates for this year, namely 31 August 2006 and 29 September 2006; and
- shortening the period during which each warrant holder may exercise his warrant rights so as to provide that to the extent that such rights are not exercised on or before 29 September 2006 that holder's warrants will be exercised on his behalf by 30 October 2006, the ordinary shares resulting from such exercise sold and the net proceeds of sale, after deduction of the cost of subscribing such ordinary shares, distributed to the holder (provided that such net proceeds exceed £3).

These amendments to the warrant terms are intended to procure the early exercise of the warrants while fairly compensating holders of warrants for that effect. The amendments are proposed for the reasons explained under "Reasons for the proposals" above.

On the basis of the mid market quotation as at the close of business on 21 March 2006 (the latest practicable date prior to the publication of this document) (as derived from the Daily Official List of the London Stock Exchange) of an ordinary share of 322p, and the last traded price as at 8 March 2006 (as derived from the London Stock Exchange) of a warrant of 245p, and assuming that the value of each warrant following implementation of the proposed amendment of warrant terms will be the value of an ordinary share less the new warrant subscription price of 60p, the effect of the proposed amendments to the warrant terms will be to increase the capital value of each warrant by 6.9 per cent.

The proposal to amend the warrant terms is conditional upon the passing of the necessary resolution of warrant holders and upon the open offer becoming unconditional.

## **8. Reduction of capital**

The company is permitted by law to pay dividends on its shares only out of distributable reserves. The level of distributable reserves shown by the balance sheet of the company at 31 December 2004 (being the latest audited balance sheet of the company) amounted to just £1.6 million.

The group's profits are currently derived almost entirely from the oil palm operations in Indonesia of the company's subsidiary, REA Kaltim. That subsidiary has substantial local borrowings in Indonesia and the covenants to which those borrowings are subject impose restrictions on the payment by REA Kaltim of dividends and of interest on loans made by the company to REA Kaltim. The company's own profits are materially dependent upon the receipt of such payments. Moreover, even to the extent that the payment of dividends by REA Kaltim is permitted by its local bankers, the availability of tax losses brought forward in REA Kaltim (resulting from accelerated depreciation for tax purposes in respect of the substantial capital expenditure that has been incurred in the establishment of REA Kaltim's operations), would make it, for the time being, fiscally disadvantageous for the group if REA Kaltim were to pay significant dividends.

As the servicing cost of the additional \$19 million of dollar notes issued pursuant to the settlement agreement will result in an increase in future charges against the company's own revenues, the directors are concerned to ensure that, if there is an erosion in the company's distributable reserves, such a technical limitation should

not inhibit the payment of dividends (especially dividends on the preference shares) which the directors would, from a commercial viewpoint, feel able to recommend. The directors consider that the likelihood of such an occurrence would be significantly reduced by the release to distributable reserves of £6 million in aggregate from the amounts currently standing to the credit of the company's share premium account and capital redemption reserve.

Accordingly it is proposed to reduce the capital of the company by cancelling the entire balance of £3,239,666 standing to the credit of the capital redemption reserve and by reducing by £2,760,334 the amount standing to the credit of the share premium account. The proposed reduction of capital is conditional upon the open offer becoming unconditional and upon the passing of the necessary resolutions of warrants holders and shareholders.

The proposed reduction of capital is further conditional upon confirmation by the High Court. Subject to, and as soon as practicable following, the passing of the necessary resolutions by shareholders and warrant holders, the company will apply to the High Court for an order providing the required confirmation. It is expected that such an order will be obtained on 18 May 2006. The reduction will not become effective until the order has been registered with the Registrar of Companies. The High Court will require to be satisfied that the interests of creditors will not be prejudiced as a result of the reduction of capital.

The company expects that it will be required to give an undertaking to treat the reserve arising on the cancellation of the capital redemption reserve and reduction of the share premium account as a non distributable reserve until all creditors at the time that the reduction of capital takes effect have been discharged or have consented to the reserve becoming distributable. The company expects that it will be permitted to qualify such undertaking so that, to the extent that it raises additional capital after the reduction of capital has become unconditional, the company will immediately be permitted to re-classify as distributable an amount of the non distributable reserve equal to the aggregate of the amount of the increase in the company's paid up share capital and the amount of the increase in the amount standing to the credit of the company's share premium account. Thus, it is anticipated that full issue of the new preference shares the subject of the preference share placing would result in £3.15 million of the non-distributable reserve becoming distributable.

The trust deed constituting the dollar notes contains provisions pursuant to which the trustee for the holders of the dollar notes has irrevocably consented, on behalf of itself and holders of the dollar notes, to a reduction in the capital of the company of the magnitude now proposed and to the release to distributable reserves of the reserve that would thereby be created. The company hopes to obtain similar consents from those other of its creditors to whom obligations are owed that will not fall due for discharge within a short period following the reduction of capital taking effect (including, should the High Court so require, those of REA Kaltim's bankers to whom the company has given a guarantee).

## **9. Financial considerations**

### ***Ordinary share placing and open offer***

In proposing to combine the open offer with the ordinary share placing, the directors recognise that existing ordinary shareholders and holders of warrants will not, by taking up their entitlements under the open offer, be able to maintain their existing percentage interests in the equity of the company. However, the directors believe that, were the company to attempt to raise the funding that it is currently seeking wholly by way of an open offer or rights issue, it would be difficult to obtain the necessary guarantees of institutional support for the issue because it would not be possible to offer potential institutional investors the certainty of acquiring what to them would represent worthwhile holdings of new ordinary shares. The directors consider that the combination of the ordinary share placing and open offer represents a reasonable balance between ensuring the availability to the company of the funding that it is seeking and permitting holders of existing ordinary shares and warrants priority subscription rights in respect of new ordinary shares to be subscribed.

Upon completion of the ordinary share placing and open offer, it is expected that the enlarged issued ordinary share capital of the company (after allowing for exercise of all outstanding warrants but ignoring the further dilution that would result from exercise of an outstanding share option) will comprise 30,888,856 ordinary shares. The new ordinary shares the subject of the ordinary share placing and open offer would represent 9.2 per cent of this enlarged issued ordinary share capital.

On the basis of such enlarged issued ordinary share capital, those qualifying holders who take up their full entitlements pursuant to the open offer will suffer immediate dilution of 4.6 per cent in their interests in the ordinary share capital of the company while those who do not will suffer an immediate dilution of 9.2 per cent.

#### ***Preference share placing***

The preference shares of MP are denominated in US dollars and the holders of the shares are entitled to a cumulative fixed annual dividend at the rate of \$80 per share (with a further cumulative dividend at the rate of 8 per cent per annum on any arrears of dividend). Since the new preference shares will be entitled to a cumulative fixed annual dividend at the rate of 9 per cent per annum, the substitution, in effect, of the new preference shares for the third party held MP preference shares would, on the basis of the latest dollar sterling exchange rate and taking into account the arrears of dividend on the MP preference shares, result in an increased annual servicing cost to the group of some £20,000.

The arrears of dividend to which the MP preference shares are currently entitled are substantial (because no annual dividends have to-date been paid) and the MP preference shares are redeemable. The company has undertaken to the third party holders of the shares that it will endeavour to procure that MP discharge the arrears of dividend and redeem the shares as quickly as possible. By replacing the third party held redeemable MP preference shares with irredeemable new preference shares in the company, the group would therefore, in effect, convert a liability into permanent capital.

#### ***Amendment of warrant rights***

The effect of the proposed amendment of the warrant rights will be to reduce by £209,000 the aggregate amount payable on exercise of all of the outstanding warrants. Against this, the company will receive the proceeds of exercise of the warrants sooner than it would expect to do if the rights were not amended and there will be savings in administrative expenses from the early elimination of the warrants as a separate security of the company.

#### ***Reduction of capital***

The proposed reduction of capital will have no immediate effect on the financial position or profitability of the group. If the reduction in due course permits the payment of dividends that the company would not otherwise have been permitted to pay, the financial position and profitability of the group will thereafter be affected by, and to the extent of, the cash outflow from the group that results from such dividend payments.

### **10. Use of proceeds**

The aggregate proceeds from the issue of new ordinary shares and new preference shares pursuant to the ordinary share placing and open offer and the preference share placing are expected to amount to £10.5 million before expenses and, after deduction of the estimated expenses of the proposals, to £9.88 million (equivalent at the latest dollar sterling rate to \$17.29 million).

For the reasons given under "Reasons for the proposals", it is proposed that some \$5.6 million of the net issue proceeds should be applied in funding the net cash outflow from the group that would result from winding up MP (being the payment of dividend arrears and repayment of capital to which the third party holders of MP preference shares would be entitled in the winding up currently amounting to \$5.6 million).

The balance of the net issue proceeds will initially be used to augment the group's available cash resources and placed on deposit but will be earmarked to fund the group's extension planting programme. It is anticipated that they will be applied for that ultimate purpose over the following twelve months.

Because the ordinary share placing and open offer and the preference share placing are conditional, the projected net proceeds from those transactions may not be received. Should that happen, the proposed winding up of MP could be delayed and the group's planned extension planting programme reduced. However, the directors do not believe that such delay or reduction would be in the best interests of the group and certainly any deferral of the planned extension planting programme would negatively impact the group's prospects by reducing the group's future productive capacity.

## **11. Context of the proposals**

In the opinion of the directors, implementation of the proposals would represent an important milestone in a restructuring and refinancing of the group that has occurred by stages over an extended period.

That period may be treated as having commenced in late 1997 when economic destabilisation in several parts of South East Asia spread to Indonesia and led, in early 1998, to political destabilisation and the resignation of President Soeharto. Much of the Indonesian banking industry became insolvent, foreign capital was withdrawn and the Indonesian rupiah collapsed. As a result, for a time, it became impossible to raise debt finance for investment in Indonesia from conventional financing sources.

All of this created major problems for what are now the East Kalimantan operations of the group because, at the time, those operations were still largely immature and were reliant upon bank finance to meet their cash requirements. These problems were further compounded by a fall in the price of CPO which moved from a high of \$705 per tonne in May 1998 to a low of \$234 per tonne in May 2001 (in both cases CIF Rotterdam, as published by Oil World).

Faced with these problems, the East Kalimantan operations looked for support to the shareholders of Makassar (which, as noted under "Background" above, had been established in 1989 to hold the operations and fund their development). At this time, the principal shareholders in Makassar were the company and the MEZ group (with equal interests). For a while both supported the East Kalimantan operations so that, over the period from 1998 to early 2001, some \$25 million of funding was provided to the operations by way of direct loans from, or bank loans supported by, the company and the MEZ group (with each providing or supporting approximately \$12.5 million).

Then in 2001, as again noted under "Background" above, differences arose between the company and the MEZ group. This led to the now settled litigation between the company and the MEZ group and to a series of transactions, concluding with the settlement agreement, whereby over the period from 2002 to-date the company acquired full ownership of the East Kalimantan operations (save as respects local investor participations in Indonesia and the third party holdings of MP preference shares). Through the same series of transactions, the company also supported the funding of the East Kalimantan operations to an extent sufficient to permit the continued development of those operations and the repayment of the loans provided or supported by the MEZ group.

All of the foregoing had to be financed by the company. Some monies were raised in 1998 and 2001 by equity offerings but, for the most part, over the period from 1998 to 2001 the company was able to meet its funding requirements by divesting businesses and assets unconnected with, or not essential to the continuation of, the East Kalimantan operations. However, after early 2002, there were no further businesses or assets left to sell and from then onwards, to-date, the company has been dependent upon issues of listed securities to provide the finance that it has required. Issues made in 2002 and 2003 (as detailed under the descriptions of the

significant events of those two years in "Operating and financial review" in Part VI below) were essential to the company's survival. Later issues in 2004 (as detailed under the description of the significant events of 2004 again in "Operating and financial review" in Part VI below) were designed to consolidate the financial position of the group, while the recent issue in February 2006, described under "Background" above, re-financed the cash component of the settlement agreement.

Following implementation of the proposals, the directors believe that the company would have the equity capital appropriate for its immediate plans in terms of the planting programmes envisaged for 2006 and 2007. After 2007, further equity capital could be required if extension planting were to be continued at a high level. However, the extent of the requirement for such capital (if any) will be dependent upon CPO prices in the intervening period and the judgement of the directors at the time as to whether any extension planting programme proposed offers the prospect of returns sufficient to justify a further call for equity funding. The directors are, however, predisposed to believe that returns to ordinary shareholders are likely to be maximised by capitalising on the group's capacity to manage a larger business off its existing overhead base and by using that base and the group's available land bank to expand the group's operations.

The position regarding the group's priority capital is less clear-cut. That capital now comprises three components: preference share capital which, upon completion of the preference share placing, would amount to some £11.5 million, the listed dollar notes of which a nominal amount of some \$24 million is outstanding and bank indebtedness in Indonesia of some \$41.5 million.

The directors believe that it is essential to maximising returns to holders of the company's equity that a proportion of the group's funding needs are met with prior charge capital. Although the company's preference 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 relatively low risk permanent capital. They also believe that, following implementation of the proposals, the amount of preference capital that would be in issue would be proportionate to the equity base of the group and that the overall level of the group's indebtedness would be appropriate to the current size of the group at this stage in its development. Furthermore, the current indebtedness of the group is a significant improvement on the debt position from which it has evolved, which was subject to almost continuous rescheduling over the period from 1998 to 2003, piecemeal refinancing in 2004 and, eventually, full refinancing in 2005.

Nevertheless the directors have a remaining concern regarding the structure of the group's indebtedness. That is that they find it unsatisfactory that the maturity of the group's Indonesian indebtedness (which is repayable by instalments over a five year period from drawdown in 2005) does not match the growth cycle of the oil palm plantings that it is effectively financing, as those plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield. This deficiency in the group's debt structure stems from the fact that the group has to-date found itself unable to borrow money in the Indonesian banking market for a fixed term of more than five years.

The directors believe that the terms of the group's existing Indonesian facilities were the best that the group could reasonably have secured when those facilities were arranged and they do not believe that it is practicable to replace the existing facilities with other local facilities in a way that would overcome the inherent defects of the current facilities (which are anyway adequate for the group's present requirements). Instead, the directors believe that the answer is to seek longer term debt from markets external to Indonesia; it was with this aim that the directors established the dollar notes as listed debt securities of the company in September 2005.

Against the background of the negotiations leading to the settlement agreement and the directors knowledge that that agreement might, as has proved the case, result

in a material further issue of dollar notes, the directors have not to-date made any serious attempts to issue a material amount of further dollar notes for cash. However, they now intend to do so and to apply any net proceeds from such issues in reducing the group's bank indebtedness. Should markets prove receptive to the issue of further dollar notes, the directors may also seek to increase the size of the dollar note issue above the originally proposed \$30 million nominal of dollar notes. They may also consider issuing a second line of listed debt securities of the company on terms similar to those of the dollar notes but with a later maturity so as to avoid an excessive proportion of the group's debt falling due for repayment within a relatively short time frame.

The company's ability to source new capital by further issues of dollar notes or of other listed debt securities is completely unproven and it may prove impossible to effect any such issues. If, however, such issues do prove possible then the directors would aim to replace a major proportion of the group's present Indonesian indebtedness with listed debt securities.

## **12. 2005 results**

Information regarding trading during 2005 is provided under "Current trading" in Part V below.

The 2005 results will reflect provision for expenditure of \$2.4 million in relation to the settlement agreement so as to make full provision at 31 December 2005 for the various MEZ group claims settled pursuant to that agreement by payment of \$6 million (an aggregate amount of \$3.6 million having already been provided against such claims in the group balance sheet at 31 December 2004).

The directors have recently been informed that there is now a degree of uncertainty as to whether the Indonesian tax authorities will continue to allow the carry forward of tax losses incurred by REA Kaltim for a period of eight years. The directors have previously been advised that REA Kaltim is eligible for such concessionary carry forward of losses (rather than the normal carry forward for five years) as the concession is applicable to companies operating oil palm plantations in the eastern provinces of Indonesia. Should this advice prove incorrect, the directors do not believe that there would be any significant implication as respects the tax actually payable by the group in respect of past years or years up to at least 2008. However, were the company to make provision in its 2005 consolidated financial statements to reflect a reduction in the period of the carry forward of REA Kaltim's tax losses from eight years to five years (as to which no decision has yet been taken by the directors who are awaiting further clarification of relevant issues from Indonesia), the company would have to recognise a reduction (currently estimated to be in the region of £1.0 million) in the deferred tax asset carried in the company's consolidated balance sheet at 31 December 2004.

## **13. Dividend policy**

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) payable by two equal semi-annual instalments on 30 June and 31 December of each year (save that the preference dividend to be paid in respect of the new preference shares on 30 June 2006 will be 2¼p per share).

Against the background of the difficult financial circumstances that the group was then facing, the directors decided, in December 2001, that it was necessary to defer payment of the fixed semi-annual dividend that fell due for payment on 31 December 2001 in respect of the preference shares. The semi-annual dividends falling due in each of June 2002, December 2002 and June 2003 were also deferred. However, by December 2003 the financial situation of the group had become clearer and preference dividends were paid on 31 December 2003 and 30 June 2004 in amounts equal to the fixed semi-annual dividends then falling due being, in each case, some £256,000. By agreement with the holders of preference shares, all arrears of preference dividend were then eliminated in July 2004 by a capitalisation issue of further preference shares equivalent in aggregate nominal value to the arrears of dividend which amounted to £1,027,000. Since then all semi annual preference dividends have been duly paid.

Absent unforeseen material adverse change in the group's circumstances, the directors intend that all future preference dividends should be paid as they fall due. The preference dividend due on 30 June 2006 will be paid from the existing distributable reserves of the company and is not contingent upon the proposed reduction in the capital of the company becoming effective.

No dividend has been paid in respect of the ordinary shares since 31 January 2000. For so long as the fixed dividend on the preference shares was in arrears, the company was not legally permitted to pay dividends on the ordinary shares. With the elimination of preference dividend arrears in July 2004, that impediment to the payment of ordinary dividends was removed but with the funding uncertainties still faced by the group, the directors have not subsequently, to-date, felt able to recommend the payment of any dividend on the ordinary shares. Completion of the settlement agreement has removed one significant uncertainty and implementation of the ordinary share placing and open offer and of the preference share placing will further improve the financial stability of the group. Nevertheless the group will continue to face significant potential demands on cash for both the planned continuing development of the group's oil palm operations and to meet scheduled repayments of the group's Indonesian bank indebtedness.

Accordingly the directors do not propose to recommend the payment of a dividend on the ordinary shares in respect of 2005. The directors remain committed to the restoration of ordinary dividends as soon as they are confident that the group's cash flow can safely support the payment of such dividends.

#### **14. Working capital**

The company is of the opinion that the group has sufficient working capital for its present requirements, that is for at least twelve months following the date of this document.

#### **15. Meetings**

As already noted above, two meetings have been convened for 18 April 2006 both of which are to be held at the London office of the company's solicitors, Ashurst, at Broadwalk House, 5 Appold Street, London EC2A 2HA:

- a meeting of warrant holders to be held at 10.15 am; and
- an extraordinary general meeting of the company (at which only holders of ordinary shares may vote) to be held at 10.30 am (or so soon thereafter as the meeting of warrant holders has been concluded or adjourned).

Two resolutions are set out in the notice of the meeting of warrant holders (each of which will be proposed as an extraordinary resolution). The first resolution provides for warrant holders to approve the proposed amendments to the terms of the warrants as described under "Warrant rights" above. The second resolution provides for warrant holders to sanction the proposed reduction of capital to be effected by the third resolution set out in the notice of extraordinary general meeting.

The first resolution set out in the notice of the extraordinary general meeting (which will be proposed as a special resolution) provides for:

- approval by shareholders of the ordinary share placing and open offer at 260p per new ordinary share, representing a discount of 19 per cent on the closing mid market quotation for the existing ordinary shares as derived from the Daily Official List of the London Stock Exchange on 13 February 2006 (being the day immediately preceding the date upon which the intention to make the ordinary share placing and open offer at a price of 260p per share was announced);
- the authorised share capital of the company to be increased by £750,000 by the creation of an additional 3,000,000 new ordinary shares (representing 7.9 per cent of the existing authorised ordinary share capital) ranking *pari passu* with the existing ordinary shares; and
- the directors to be authorised to allot up to 2,828,000 new ordinary shares pursuant to the ordinary share placing and open offer and to be empowered

to do so as if the statutory pre-emption rights under section 89 of the Act did not apply to such allotment.

The second resolution set out in the notice of the extraordinary general meeting (which will be proposed as an ordinary resolution) provides for the authorised share capital of the company to be increased by £3,000,000 by the creation of an additional 3,000,000 new preference shares (representing 26.1 per cent of the existing authorised preference share capital) ranking *pari passu* with the existing preference shares (save that the dividend payable on the new preference shares on 30 June 2006 will be 2¼p per share) and for the directors to be authorised to allot the same.

The third resolution set out in the notice of the extraordinary general meeting (which will be proposed as a special resolution) provides for the capital of the company to be reduced by £6,000,000 (subject to confirmation by the High Court) by the cancellation of the entire amount (namely £3,239,666) standing to the credit of the capital redemption reserve and of £2,760,334 standing to the credit of the share premium account.

The proposals to increase the authorised share capital of the company pursuant to the first and second resolutions set out in the notice of the extraordinary general meeting are designed to provide additional numbers of ordinary shares and preference shares in the authorised share capital substantially equivalent to the numbers of new ordinary shares and new preference shares proposed to be issued pursuant to the ordinary share placing and open offer and the preference share placing.

**16. Action to be taken**

Recipients of this document will find enclosed reply paid forms of proxy for use in connection with such of the meetings convened for 18 April 2006 (as detailed under "Meetings" above) as their holdings of warrants and ordinary shares entitle them to attend. Each such person, whether or not he proposes to attend such forthcoming meeting(s), is urged to complete such form(s) of proxy in accordance with the instructions printed thereon and to return the same by post to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, in each case so as to arrive as soon as possible but in any event by no later than 48 hours before the time fixed for the meeting to which the applicable form of proxy relates. The return of a form of proxy will not prevent the holder of the relative securities from attending the meeting and voting in person if he should so wish.

Qualifying holders will also find enclosed an application form for use in connection with the open offer. Any qualifying holder wishing to apply for new ordinary shares must complete and return the application form in accordance with the instructions contained therein. The attention of any such qualifying holder is drawn particularly to Part IV below.

**17. Further information**

Attention is drawn to the risk factors described in Part II above and to the further information in Part IV to Part VIII below.

**18. Recommendation**

The directors are of the opinion that the proposals, and the resolutions necessary to implement the proposals (being the resolutions set out in the notices of the meeting of warrant holders and of the extraordinary general meeting convened for 18 April 2006), are in the best interests of warrant holders and shareholders as a whole.

Accordingly the board recommends that:

- warrant holders vote in favour of each of the two resolutions set out in the notice of the meeting of warrant holders convened for 18 April 2006; and
- ordinary shareholders vote in favour of each of the three resolutions set out in the notice of the extraordinary general meeting convened for 18 April 2006.



The directors (and persons connected with them within the meaning of section 346 of the Act) intend to vote in favour of all resolutions referred to above in respect of their own beneficial holdings which amount in aggregate to 137,900 warrants (representing 8.9 per cent of the warrants in issue) and 870,805 ordinary shares (representing 3.3 per cent of the issued ordinary share capital of the company).

Emba has undertaken to vote in favour of all resolutions referred to above in respect of its holdings of 41,420 warrants (representing 2.7 per cent of the warrants in issue) and 9,468,781 ordinary shares (representing 35.7 per cent of the issued ordinary share capital of the company).

Yours faithfully

**RICHARD ROBINOW**  
Chairman

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## **PART IV. FURTHER DETAILS OF THE OPEN OFFER**

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### **1. Further terms**

Save as provided under "Withdrawal rights" below, applications for new ordinary shares will be irrevocable and may only be made on the application forms which are personal to the qualifying holders named therein and may not be assigned, transferred or split except to satisfy bona fide market claims in relation to purchases of existing ordinary shares and warrants through the market prior to the date on which the existing ordinary shares and warrants are marked "ex" the entitlement to the open offer by the London Stock Exchange. Qualifying holders who have, prior to that date, sold or transferred all or part of their registered holding(s) are advised to consult their stockbroker or other professional adviser regulated by the Financial Services Authority as soon as possible since the invitation to apply for new ordinary shares may represent a benefit that can be claimed from them by buyers or transferees under the rules of the London Stock Exchange. The application forms evidence rights to apply for new ordinary shares but are not documents of title and cannot be traded.

**Qualifying holders should be aware that the open offer is not a rights issue and that new ordinary shares that they do not take up under the open offer will not be sold in the market for their benefit. Pro rata entitlements that are not subscribed pursuant to the open offer will lapse and the new ordinary shares the subject of such entitlements will not be issued pursuant to the open offer. No payment will be made to qualifying holders in respect of lapsed entitlements.**

### **2. Application and payment**

Each application form sets out the holdings of existing ordinary shares and warrants of the qualifying holder to whom the form is being issued together with the pro rata entitlement to new ordinary shares to which those holdings give rise. The application forms contain full details regarding application and payment.

Qualifying holders wishing to apply for all or any of the new ordinary shares to which they are entitled must lodge their application forms in accordance with the instructions printed thereon, together with the appropriate remittance, by post or by hand (during usual business hours only) with Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive in each case by not later than 3.00 pm on 12 April 2006. The enclosed reply paid envelope may be used in connection with the lodging of application forms.

To the extent that payment in respect of any entitlement under the open offer is not received by 3.00 pm on 12 April 2006, the relative qualifying holder will be deemed to have declined the invitation to subscribe for new ordinary shares pursuant to the open offer and his pro rata entitlement will lapse.

Applications will not be acknowledged.

**All payments must be made in pounds sterling by cheque or banker's draft payable to "Capita IRG Plc - a/c R.E.A. Holdings plc", crossed "account payee only" and drawn on an account at a branch of a bank or building society in the UK, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or of the CHAPS Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for members of those companies or of those committees and must bear the appropriate sort code in the top right hand corner. Eurocheques, unless drawn on an account at a branch of a bank in the UK, the Channel Islands or the Isle of Man, will not be accepted.**

Cheques must be drawn on an account in the name of the applicant (including a joint account). Third party cheques other than a building society cheque or banker's draft meeting the requirements set out in paragraph (i) under "Money laundering" below will not be accepted.

Cheques and banker's drafts will be presented for payment upon receipt and paid into a separate bank account, held on behalf of the company. Post dated cheques will not be accepted. If the conditions of the open offer are not fulfilled by 9.30 am on 16 May 2006, application monies will be returned without interest by cheque crossed "account payee only" in favour of the relative applicant (or, in the case of joint applications, the first named thereof) and sent by post by no later than 23 May 2006 at the risk of the applicant(s). It is a term of the open offer that all cheques must be honoured on first presentation. The company may elect not to treat as valid any applications for new ordinary shares in respect of which cheques are notified to it or its agents as not having been so honoured. The company reserves the right to instruct Capita Registrars to seek special clearance of cheques to allow the company to obtain value for remittances at the earliest opportunity.

The company reserves the right (but shall not be obliged) to treat as valid applications for new ordinary shares even if not completed in accordance with the relevant instructions or if not complying strictly with the terms and conditions of application.

The company further reserves the right (but shall not be obliged) to treat as valid applications for new ordinary shares (a) received by post prior to 9.00 am on 13 April 2006 but bearing a posting time earlier than 3.00 pm on 12 April 2006; or (b) in respect of which remittances are received prior to the latest time and date for application, from an authorised person (as defined in the Financial Services and Markets Act 2000), specifying the number of new ordinary shares for which application is made and undertaking to lodge the relevant application form duly completed in due course.

To the extent that the payment made by an applicant for new ordinary shares exceeds the aggregate offer price in respect of new ordinary shares issued to that applicant, excess application monies will be returned without interest in the manner described above.

All enquiries in connection with application forms and applications for new ordinary shares pursuant to the open offer should be made to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH (telephone 0870 162 3121 or, for callers from outside the UK, + 44 20 8639 2157). However, Capita Registrars will not provide financial advice on the merits of the open offer or as to whether qualifying holders should or should not take up their entitlements.

**3. Dealings,  
CREST and  
share  
certificates**

The company will issue an announcement of the result of the open offer by notification to the Regulatory News Service of the London Stock Exchange. It is expected that such announcement will be issued on 18 April 2006 and that dealings in the fully paid new ordinary shares, for normal settlement, will commence on 19 April 2006.

The new ordinary shares will be issued in registered form and may be held in uncertificated form on the CREST system. New ordinary shares may be delivered in uncertificated form to member CREST accounts where qualifying holders are CREST participants. However, notwithstanding any other provision set out in this document or the application form, the company reserves the right at its absolute discretion to issue new ordinary shares to any such shareholders in certificated form. In normal circumstances this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or any part of the facilities under/or systems operated by the company's registrars in connection with CREST.

It is expected that CREST accounts will be credited in respect of new ordinary shares on 19 April 2006 and that share certificates in respect of new ordinary shares will be despatched by first class post on 26 April 2006. Pending despatch of share certificates in respect of the new ordinary shares (as applicable), transfers will be certified against the register of members of the company. No temporary documents of title will be issued. Qualifying holders who are CREST sponsored members should note that they will not be sent any confirmation of the credit of the new ordinary shares to their stock account nor any other written communication by the company in respect of the issue of new ordinary shares. Qualifying holders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the open offer.

#### 4. Money laundering

It is a term of the open offer that, to ensure compliance with the Money Laundering Regulations 2003 (the "Money Laundering Regulations"), Capita Registrars may require to verify the identity of the person by whom or on whose behalf an application form is lodged with payment (which requirements are referred to below as the "verification of identity requirements").

The person(s) (the "applicant") who, by lodging an application form with payment, applies for new ordinary shares pursuant to the open offer (the "relevant shares") shall thereby be deemed to undertake to provide Capita Registrars and/or the company with such information and other evidence as Capita Registrars and/or the company may require to satisfy the verification of identity requirements. If Capita Registrars, having (where time allows) consulted with the company and having taken into account its comments and requests, by 3.00 pm on 12 April 2006 determines that the verification of identity requirements apply to any applicant or application, and the verification of identity requirements have not been satisfied (which Capita Registrars shall in its absolute discretion determine), the company, in its absolute discretion, and without prejudice to any other rights of the company, treat the application as invalid or may confirm the allotment of the relevant shares to the applicant but (notwithstanding any other term of the open offer) the relevant shares will not be issued to the applicant unless and until the verification of identity requirements have been satisfied in respect of that application (which Capita Registrars shall in its absolute discretion determine).

If the application is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the applicant, the company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares (and for that purpose the company will be expressly authorised to act as agent of the applicant). Any proceeds of sale (net of expenses) of the relevant shares or an amount equivalent to the original payment, whichever is the lower, will be held by the company on trust for the applicant, subject to the requirements of the Money Laundering Regulations. Capita Registrars is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any applicant or application and whether such requirements have been satisfied. Neither the company nor Capita Registrars will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

Submission of an application form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in an application being treated as invalid or in delays in the despatch of share certificates or in crediting CREST stock accounts.

The verification of identity requirements will not usually apply if:

- (a) the applicant is an organisation required to comply with the Money Laundering Directive (No. 91/308/EEC); or
- (b) the applicant is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (c) the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the name of such applicant; or
- (d) the aggregate amount payable for the relevant new ordinary shares at the offer price is less than €15,000 (being as at 21 March 2006 some £10,400).

In other cases the verification of identity requirements may apply. The following guidance is provided in order to assist in satisfying the verification of identity requirements and to reduce the likelihood of difficulties or delays and potential rejection of an application (but does not limit the right of Capita Registrars to require

verification of identity as stated above). Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account of the applicant) or banker's draft, by the building society or bank endorsing on the cheque or draft the applicant's name and the number of an account held in the applicant's name at such building society or bank, such endorsement being validated by a stamp and authorised signature; or
- (ii) if the application form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money laundering regulations in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey and the US and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), by the agent providing written confirmation with the application form that it has that status and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to Capita Registrars or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (ii) above or in any other case, the applicant should contact Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH.

If an application form is in respect of relevant shares with an aggregate subscription price of €15,000 or more and is lodged by hand by the applicant in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and separate evidence of his address from an appropriate third party (for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the applicant's name and address).

## **5. Overseas holders of ordinary shares or warrants**

### **(A) General**

The making of the open offer to holders of existing ordinary shares and/or warrants who are resident in, or who are citizens of, or who have registered addresses in, territories other than the United Kingdom and to holders of existing ordinary shares and/or warrants who are US persons (within the meaning provided in section 902(k) of Regulation S under the United States Securities Act of 1933, as amended) (all such holders being "overseas holders") may be affected by the laws or regulatory requirements of the relevant jurisdiction. Overseas holders who are in any doubt in this respect should consult their professional advisers. No person receiving a copy of this document and/or an application form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such application form, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such application form could lawfully be used without contravention of any legislation or other local regulatory requirements. Receipt of this document and/or an application form does not constitute an invitation or offer to overseas holders in the territories in which it would be unlawful to make an invitation or offer and in such circumstances this document and any application form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an application form outside the United Kingdom and wishing to make an application for any new ordinary shares under the open offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such other territory.

Persons (including, without limitation, nominees and trustees) receiving an application form should not, in connection with the open offer, distribute or send the application form into any jurisdiction when to do so would or might contravene local securities laws or regulations.

If an application form is received by any person in any such jurisdiction or by the agent or nominees of such person, he must not seek to take up the new ordinary shares pursuant to the open offer except pursuant to an express agreement with the company.

Any person who does forward an application form into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph. The company reserves the right to reject an application form from or in favour of holders of existing ordinary shares and/or warrants in any such jurisdiction.

The company reserves the right in its absolute discretion to treat as invalid any application for new ordinary shares under the open offer if it appears to the company that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the company has not been given the relevant warranty concerning overseas jurisdictions set out in the application form or in this document, as appropriate.

All payments under the open offer must be made in pounds sterling.

**(B) North America**

Neither the application form nor the new ordinary shares have been or will be registered under the US Securities Act of 1933, or under any state securities laws of the United States, nor have they been, nor will they be qualified for sale under the securities laws of any province or territory of Canada and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Except in a transaction which is exempt from the registration requirements of such laws, the new ordinary shares may not, directly or indirectly, be offered, sold, taken up or delivered in North America, or to or for the benefit of a North American Person (as defined below). No application form is being sent to any holder of existing ordinary shares and/or warrants with a registered address in North America. This document is being sent to such holders for information purposes only and for the purpose of giving notice of the extraordinary general meeting of the company and/or meeting of warrant holders (as appropriate) convened for 18 April 2006 and does not constitute an offer or invitation to apply for new ordinary shares under the open offer.

In this document "North America" means the United States of America and Canada, their respective territories and possessions and all areas subject to their respective jurisdictions and any political subdivision thereof and "North American Person" means any person who is in North America, or any citizen or resident of North America, who receives any application form in North America or who executes, authorises the execution of or sends in any application form or effects any application under the open offer from within North America and shall include the estate of any such person or any corporation, partnership or other entity created or organised under the laws of North America. References in this document to "in North America" shall mean at the time the open offer is received and at the time any relevant application form is executed or authorised to be executed and returned.

**(C) Australia**

Neither this document nor the application form nor the new ordinary shares will be lodged or registered with the Australian Securities and Investments Commission under Australia's Corporations Law and new ordinary shares are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the account or benefit of any person or corporation in Australia. No application form is being sent to any holder of existing ordinary shares and/or warrants with a registered address in Australia. This document is being sent to such holders for information purposes only and for the purposes of giving notice of the extraordinary general meeting of the company and/or meeting of warrant holders (as appropriate) convened for 18 April 2006 and does not constitute an offer or invitation to apply for new ordinary shares under the open offer. Payment under an application form will constitute a representation or warranty that the person entitled to the same has not received, sent or forwarded the application form or effected the application in or into Australia or to any person or corporation in Australia, and is not subscribing for any of the new ordinary shares for the account or benefit of any person or corporation in

Australia or with a view to their offer, sale or delivery directly or indirectly in or into Australia or to or for the account of any person or corporation in Australia.

**6. Withdrawal rights**

Qualifying holders wishing to exercise statutory withdrawal rights after publication by the company of a supplementary prospectus containing details of any significant new factor, material mistake or inaccuracy relating to the information contained in this document must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication), which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the Participant ID and the Member Account ID of such CREST member, with Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, so as to be received no later than two business days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is deposited with or received by Capita Registrars after expiry of such period will not constitute a valid withdrawal.

Withdrawal rights may not be exercised after the allotment of new ordinary shares has become unconditional.

**7. General**

All documents and remittances in connection with the open offer will be sent to and by qualifying holders at their risk.

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## **PART V. BUSINESS INFORMATION**

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### **1. History**

The business of the group, and the initials in the company's name, have their origins in a company formed in 1906 under the name of "The Rubber Estate Agency, Limited" ("REAL") and established for the purpose of developing rubber plantation operations. After an initial unsuccessful venture in Brazil, REAL decided to concentrate on plantation properties in South East Asia and commenced business there in 1907 with the acquisition of a rubber plantation in Java.

During the Second World War, REAL lost control over its Malaysian and Indonesian estates. Whilst control was resumed after the end of the war, in 1964, UK-owned estates in Indonesia were nationalised. Subsequently, in the late 1960s and early 1970s, REAL sold its other South East Asian operations leaving it, for a while, without direct plantation interests. Then, in 1979, REAL's historic connection with plantation agriculture in Indonesia was restored when the owners of Gadek Indonesia Limited, a company that had commenced business in Indonesia in 1974 with the acquisition of a rubber estate and had subsequently established other Indonesian plantation interests, bought REAL. A reorganisation in late 1981 resulted in the businesses of REAL and Gadek Indonesia Limited coming under the ultimate ownership of the company.

An important step in the group's latter day development was the commencement in 1982, under REA group management, of the Tasik project, a scheme for the development of a new oil palm estate on a 6,000 hectare concession in North Sumatra, Indonesia. This project was sponsored by the group and two other UK plantation groups. Substantial areas of the Tasik project were planted over 1983 and 1984 and with the development of the project expected to be complete by 1986, the group and the other two co-sponsors of the project agreed to amalgamate their interests in the project, together with their other Sumatran plantation interests, under the umbrella of a new holding company, Anglo-Eastern Plantations plc ("AEP") which was listed on the London Stock Exchange in 1985.

In 1989, the group sold its AEP shareholding and decided to reinvest the substantial cash proceeds from that sale in establishing a new, single site, large-scale oil palm scheme in Indonesia. In late 1989, the group set up an office in East Kalimantan, at that time one of the less developed provinces of Indonesia, and commenced negotiations to obtain a land concession for planting with oil palms. Although initial progress was slow, by 1991 provisional allocation of a suitable site had been obtained and, in 1992, the first nurseries were established. Since then substantial areas have been planted with oil palms and the current East Kalimantan operations of the group are the result.

The East Kalimantan operations were initially financed by a syndicate of investors led by the group. The acquisition of interests held by third party investors in 2002 and, more recently, in February 2006 pursuant to the settlement agreement has resulted in the operations coming under the full ownership of the group (other than as respects local investor participations as described under "Overview of current business" below and third party shareholdings in the preference shares of MP, a sub-holding subsidiary of the company).

### **2. Overview of current business**

The entire business of the group is now represented by oil palm operations in East Kalimantan, Indonesia.

The primary operations are owned by REA Kaltim in which the company and MP together hold a 100 per cent economic interest.

In addition, in line with Indonesian government policy encouraging foreign investors to facilitate local participation in their investments, the group is establishing further operations in East Kalimantan with ownership participation by local Indonesian interests. Development of a first such operation is being undertaken through PT Sasana Yudha Bhakti ("SYB"), which is owned as to 95 per cent by the group and as to 5 per cent by a local investor. A second joint venture operation is currently under



active negotiation. It is anticipated that this second operation will be undertaken through PT Kartanegara Kumala Sakti ("KKS"), which will be owned as to 95 per cent by the group and as to 5 per cent by another local investor.

### **3. Area of operations**

The primary East Kalimantan operations are being developed pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to provide a land concession of 125,000 hectares to be developed as to 50,000 hectares by REA Kaltim itself ("the nucleus area") and as to the balance of 75,000 hectares by local interests in cooperation with REA Kaltim. The operations 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. At present, access to the operations can be obtained only by river (or air) but the recent completion of a new bridge over the Mahakam should eventually permit road access as well.

Although the 1991 understanding established a basis for the release of land for development by or in cooperation with REA Kaltim, all actual land releases have to be agreed with the 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. The Ministry of Forestry seeks to ensure that land is released only when it becomes needed for development, which has resulted in a staged programme of land releases that reflects the pace of development.

To date, the Ministry of Forestry has approved several land releases to the group. Land title certificates were obtained some time ago in respect of three of these releases covering 30,106 hectares in total. The land registry survey of the area covered by a fourth proposed release of some 13,800 hectares was completed in 2002 and it had been expected that a land title certificate for this area would be issued in mid 2003. However, following the detailed consultation with local people that forms part of the survey and release process, the group agreed to relinquish part of the area proposed to be released on the basis that that land would remain available for use by the local people and that the group would apply for a substitute area. This required that a further survey be made of the amended area, now totalling 10,920 hectares, before a land title certificate for this area could be issued.

It had been hoped that following such survey, the central government land registry in Jakarta would fairly quickly authorise the issue to REA Kaltim of the relative registered land title certificate. However, the land registry expressed concern that the grant of this further land title would expand the nucleus area to an extent that would be out of line with the expected balance between that area and the areas under development by the group with local interests. To overcome this concern, REA Kaltim and SYB agreed with the central government land registry that the land be released to SYB rather than to REA Kaltim.

Accordingly, the SYB joint venture development will now take place in two discrete areas: the area of 10,920 hectares referred to above, which adjoins the western boundary of REA Kaltim's fully titled area to the north of the Belayan river, and a further area of 5,110 hectares, which adjoins the south eastern boundary of REA Kaltim's nucleus area to the south of the Belayan river. The land title certificate in respect of the 5,110 hectare area has been issued to SYB and the certificate in respect of the 10,920 hectare area should be issued shortly.

It is planned that the prospective KKS joint venture development be established on an area of about 20,000 hectares adjoining the north eastern boundary of REA Kaltim's fully titled area to the north of the Belayan river. A provincial land allocation (an izin lokasi) has now been granted to KKS and the cadastral survey required for the granting of a registered land title certificate is expected to take place within the next few months.

#### 4. Scope of operations

Mature plantings at 31 December 2005 comprised 13,085 hectares, all of which were derived 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 found itself obliged, in 1998, to suspend new planting and to concentrate its resources on bringing to maturity the areas that had previously been planted or prepared for planting. By 2003, with most of such areas having finally reached maturity and achieving profitable cropping levels, REA Kaltim felt able to resume new planting and initiated an extension planting programme. This resulted in the planting out of an additional 3,000 hectares in 2004.

It was also planned that REA Kaltim would plant out another 3,000 hectares in 2005 but land clearing operations were delayed by representations from certain affected local villagers who were seeking to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected individuals had been successfully allayed, by abnormally high rainfall in the last quarter of 2005. As a result, land clearing completed by REA Kaltim by end 2005 amounted to 1,450 hectares and the balance of the planned 2005 extension planting programme was carried forward. For 2006, it is planned to complete the balance of the 2005 programme and to plant a further 2,250 hectares.

Operations commenced on the SYB joint venture land to the south of the Belayan river in July 2004 with the establishment of a nursery. As in REA Kaltim's nucleus area, land clearing in the area proposed to be planted out in 2005 was delayed by the abnormally high rainfall in the last quarter of 2005 so that, of an original programme of 1,500 hectares, the area cleared by year end amounted to 800 hectares. It is expected that planting out of the full 1,500 hectare 2005 programme can be completed in the first half of 2006. In addition, SYB is planning to plant out a further 1,500 hectares during 2006.

Development of new areas requires a one year lead time in which to procure seed and develop the seedlings to be planted out. Accordingly the plans described above for planting out in 2006 reflect the planning of a year or more ago. Provided that CPO prices continue at present levels or better and that the proposed issue of new ordinary shares pursuant to the ordinary share placing and open offer is completed, the directors intend to take advantage of the additional funding that such issue will provide to expand the previously planned planting programme for 2007 and, while recognising that such a target is ambitious, will aim to plant a total of 7,000 hectares across the group as a whole during 2007. This would be a larger development programme than the group has hitherto attempted but, by splitting the planned programme between the various fully titled areas that are or will be available for development by REA Kaltim, SYB and prospectively KKS and thus developing simultaneously on several fronts, the directors believe that the logistical obstacles to the planned programme can be minimised.

It is the directors' intention that beyond 2007 the group should continue its expansion and should seek to plant with oil palms all suitable undeveloped land available to the group 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.

REA Kaltim currently operates a single oil mill in which the FFB crop harvested from the mature oil palm areas is processed into CPO and palm kernels. The mill began operating in late 1998 with a single production line having an initial capacity of 30 tonnes of FFB per hour. In 2002, the capacity of the first line was expanded to 40 tonnes per hour and, in 2003, a second production line was added with a capacity of 40 tonnes per hour. The enhanced milling capacity of 80 tonnes per hour is expected to be sufficient to process all future FFB crops from the 13,085 hectares of plantings that are currently mature. A second oil mill is currently under construction to provide the additional capacity that will be required to process FFB crops harvested from existing immature areas which are expected to come into production from 2007 onwards. The second mill is expected to be completed in the second half of 2006 and will have an

initial capacity of 40 tonnes per hour expandable in due course to 80 tonnes per hour by the installation of a second 40 tonne per hour processing line.

CPO output from the existing oil mill is initially stored in CPO tanks adjacent to the mill. From there, it is barged down the Belayan and Mahakam rivers to a transshipment terminal adjacent to the port of Samarinda for collection by buyers in ships of up to 6,000 tonnes. Upstream storage capacity amounts to 9,000 tonnes. The transshipment terminal, which is also owned by the group, has a capacity of 8,000 tonnes. It is planned that CPO output from the second oil mill will be handled in similar fashion to output from the existing mill and that the transshipment terminal will be progressively expanded by the addition of further tanks as CPO throughput increases. A contract for the construction of new tanks to provide a further 4,000 tonnes of storage capacity has recently been awarded with completion programmed for the second half of 2006.

After initially relying on outside contractors for barge transport of CPO, the group established its own fleet of barges. An 800 tonne barge was acquired in 2002. This was followed by a 1,000 tonne barge in 2003. Two further 1,500 tonne barges were delivered in 2004, substantially eliminating the need for outside barge contractors, the use of whom proved expensive. 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 CPO at times has to be transferred by road from the mill 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 REA Kaltim 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 (currently under construction) that will provide access to the site.

With a view to improving its export shipment options, REA Kaltim has been investigating the possibility of using its barge fleet to transfer CPO from the Samarinda transshipment terminal to ships anchored offshore immediately outside the port of Samarinda. This would provide access to vessels of much greater tonnage than can be loaded within the port of Samarinda. An initial trial conducted at the end of 2005 proved successful and accordingly the merits of regular barge to ship transfers are now under active consideration.

Palm kernels are dealt with similarly to CPO except that they are not unloaded at the Samarinda transshipment terminal but are instead loaded directly from barge to buyer's vessel.

The transshipment terminal incorporates facilities for the storage and handling of fertilisers and other estate supplies; the barge fleet is used on return trips upstream to carry those bulk estate supplies that are not delivered directly to the upstream operations.

In planning the design of its second oil mill, REA Kaltim made provision for the concurrent construction, within the overall facility, of a palm kernel crushing plant in which the palm kernel output from the existing and second oil mills can be further processed and the palm kernel oil contained in the kernels extracted. This will permit transport volumes to be reduced with a consequent improvement in returns. Tenders for the kernel crushing plant were issued during 2004 and the contract was awarded in 2005. It is expected that the kernel crushing plant will be operational in mid 2006. Once the second mill becomes operational, the surplus electricity generating capacity of that mill will be used to power the kernel crushing plant. Pending completion of the second mill, the kernel crushing plant will be powered by diesel generating sets.

**5. Production** FFB production has risen over the past five years from 123,992 tonnes in 2001 to a level of 313,000 tonnes in 2005.

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. REA Kaltim achieved yields in excess of 29 tonnes per hectare in 2005 from the earliest plantings, marginally exceeding the 27 to 27.5 tonnes achieved in the period from 2003 to 2004. This would indicate 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 and a fully mature output during the years of peak production in the range of 350,000 to 370,000 tonnes per annum should be achievable from the 13,085 hectares that are currently mature.

From 2007 onwards, crops should further increase as the areas being planted under the extension planting programme progressively reach maturity.

Whilst the East Kalimantan operations are located in an area of high rainfall with sunlight hours and soil conditions well suited to the cultivation of oil palm, it must be remembered that weather and growing conditions vary from year to year and setbacks are possible (as occurred in 1997/98 during the period of the El Nino weather phenomenon). As with any agricultural product, oil palm cropping is directly related to growing conditions.

Achievement of projected production is also dependent on operating efficiency in maintaining optimal field conditions, in harvesting and processing available crops and in controlling pests and diseases. Production may also be affected by non-agricultural considerations including continuing good relations with the group's workforce and freedom to operate in a secure environment.

In years when weather conditions are not abnormal, a CPO extraction rate in excess of 24 per cent has been consistently achieved. Against industry norms, such a rate is regarded as very satisfactory. Palm kernel extraction rates in the range of 4.0 to 4.6 per cent have been typical to-date. Changes to the design of the kernel extraction plant were completed during the second half of 2004 and are proving effective in reducing palm kernel process losses. The directors therefore consider that a target rate of 4.5 per cent should be achievable under normal operating conditions.

## 6. Sales

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.

According to Oil World, CPO production in the year to 30 September 2005 totalled 33.2 million tonnes, representing some 24.1 per cent of the total world production of the 17 major vegetable and animal oils and fats for the same period of 137.9 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 adjusted much more rapidly to movements in prevailing market prices than production of CPO. Whilst in some areas (such as the EU) the economics of growing oilseed crops are distorted by subsidies, the directors believe that fundamental market factors still drive the overall levels of annual oilseed production and that the ability to reduce or increase such production in response to market surpluses or shortfalls will normally serve to correct imbalances within a relatively short time frame.

Over the past ten years, the average annual CPO price CIF Rotterdam, as derived from prices published by Oil World, has moved between a high of \$671 per tonne and a low of \$286 per tonne. The average price over the ten years as whole has been \$451 per tonne. The directors are of the opinion that the low prices of CPO in the last quarter of 2000 and early months of 2001 and the subsequent recovery in prices to the higher levels now prevailing are simply cyclical fluctuations in a market that has historically been subject to major movements about a norm.

The outlook for CPO prices must also 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 5.7 per cent to 136.7 million tonnes in the year to 30 September 2005. This annual increase of 7.4

million tonnes is significantly in excess of the average annual growth in consumption of some 4.1 million tonnes or 3.3 per cent in the preceding three year period. Major uses of vegetable oil have conventionally been for the production of cooking oil, margarine and soap and consumption of these basic commodities in less developed areas is closely related to per capita incomes. A new use for vegetable oil, which is currently assuming an increasing importance in worldwide demand, is biofuels. The directors believe that a combination of the high world price for crude petroleum oil and an increasing level of tax incentives being provided by governments in Europe and North America for the use of biofuels is likely to lead in the medium term to a significant increase in the industrial use of vegetable oils as a crude petroleum oil substitute.

The CPO price, spot CIF Rotterdam, started 2005 at \$415 per tonne but then declined to below \$400 per tonne. Prices subsequently recovered and in 2006 to-date have traded in the \$405 to \$450 range. Whilst offtake remains good, record soybean crops, causing an overhang of uncrushed soybean stocks, have introduced a note of uncertainty as to the immediate direction of vegetable oil markets. Against this, the continuing high price of crude petroleum oil and the increasing evidence of material levels of new demand from the expanding market for biofuels have served as a support for CPO prices. However, increased freight rates have meant that prices of CPO at origin in Malaysia and Indonesia have during most of 2005, and in 2006 to-date, been at high discounts to CIF Rotterdam prices.

Prior to 2003, almost all of the group's CPO production was sold into the local Indonesian market. With the increased cropping achieved in 2003, production levels provided sufficient volume to support an export sale programme and arrangements were put in place to make regular export shipments of CPO. In 2005, approximately 63.5 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 36.5 per cent was exported. FOB prices realised for CPO in the local market during 2005 were broadly equivalent to those available in the export market but, as sales volumes continue to increase, it is anticipated that the larger CPO markets available internationally will lead to export sales returning better prices for CPO than local sales. Shipping constraints have meant that export sales have hitherto been concentrated within the South East Asian region but the access to larger vessels provided by loading ships anchored offshore from Samarinda (as referred to above) should permit the group to expand its export markets to Europe and other more distant destinations.

Pending construction of the planned kernel crushing plant, palm kernels continue to be sold almost exclusively to Indonesian processors located principally in the islands of Java and Sumatra.

## 7. Costs

The group's operations represent an established business and the directors therefore believe that costs are predictable subject to the normal uncertainties inherent in any agricultural activity.

CPO is essentially a US dollar based commodity. Accordingly, the group's sales revenues are effectively US dollar denominated and, in assessing the impact of cost changes on margins, costs need to be viewed in US dollar terms. A significant component of operating costs (including fertiliser and machinery inputs) are US dollar linked and a major proportion of overheads and almost all financing costs are incurred in US dollars. However, some cost components (such as local employment costs and head office costs) do arise in Indonesian rupiah and sterling so that costs overall may be affected by fluctuations in the rates of exchange of these currencies against the US dollar. The group does not normally hedge against such fluctuations.

There are some risks of cost inflation in US dollar terms from increasing Indonesian labour rates and reducing local subsidies if, as has happened in recent years, such cost inflation is not compensated for by a commensurate depreciation in the value of the Indonesian rupiah against the US dollar. Over the three year period to end 2005, the Indonesian rupiah devalued against the US dollar by 9 per cent but government directed wage rates in Indonesia increased by 27 per cent. In addition, 2005 saw a further material increase in costs as a result of a reduction in Indonesian fuel subsidies with the local cost of diesel oil increasing from Rp 2,000 per litre to Rp 6,300 per litre

over the year. Such increases in local costs have an unavoidable negative effect on operating costs in US dollar terms. Operating efficiencies achievable from the growing production volumes, coupled with the better absorption of overheads that expansion of planted areas permits, do, however, provide some scope for mitigating the resultant impact on margins.

Any strengthening of sterling against the US dollar has a double negative impact on results because it both increases sterling based costs in US dollar terms and reduces US dollar profits in sterling terms. The converse applies as respects any weakening of sterling against the US dollar.

## **8. Employment and the local environment**

Concurrently with development of the East Kalimantan operations, the group has established a permanent workforce to man the operations. That workforce currently numbers some 2,750 and is sufficient for the current level of operational activity, although 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. With operations maturing, training is an important focus for the management team in its efforts to establish best practice in all aspects of the group's activities. Regular training programmes targeted at all levels of management are run as part of the human resource development function. The recommencement of extension planting in 2003 brought with it the need to enlarge the operational management team and an annual recruitment programme for graduates with agricultural qualifications was instituted. 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 new planted areas and to allow for staff turnover.

To-date, training programmes have principally been constructed and operated out of REA Kaltim's own training school and have been targeted primarily at lower and middle management levels. In view of the importance attached by the group to the development of management skills at all levels, the scope of the ongoing training programme is being progressively extended to include the external provision of management development programmes for the group's senior Indonesian management.

The group is active in assisting local villages to establish their own smallholdings on a co-operative basis. At 31 December 2005, 670 hectares of smallholder plantings adjacent to the group's operations had been established across nine local villages. Each local farmer cultivates oil palm on his own two hectare plot and the group supplies fertiliser inputs and technical advice for payment on deferred terms. In due course, the 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 availability of some local government funding for the smallholder scheme has been a most welcome support for the scheme in recent years. The directors hope that such local government funding will continue. However, the provision of bank finance for future smallholder development will be fundamental to the expansion of the smallholder initiative. Historically, banks in Indonesia have advanced substantial sums to smallholder farmers through central government sponsored schemes in which nucleus estate operators have acted as agents of the banks in relation to the advances. Unfortunately, such schemes, which are said to have been abused by some nucleus estate operators, have been largely discontinued in recent years. The group has therefore sought to arrange smallholder loans by direct negotiation with several local development banks serving East Kalimantan. Agreement in principle has been reached with one such bank for the provision of smallholder loan finance, subject to the smallholder recipients of such finance pledging the title deeds of their smallholdings as security for the loans provided. Disbursement of this funding is now being progressed.

The group continues to follow the environmental policies that it established in 1995 following a detailed environmental impact assessment. Designated conservation areas, aimed at preserving established wildlife trails, were retained within the REA Kaltim property during its development and, with the exception of one area that was destroyed by a fire during the 1997/98 El Nino drought, these continue to be maintained. In line with the group's continued commitment to sustainable development, an update of the 1995 environmental impact assessment was commissioned in late 2004 and completed in early 2005. The update fully supported the ecological value of the conservation programme followed to-date and recommended that it be continued in all future development areas.

## **9. Current trading**

As noted under "Production" above, the crop out-turn for 2005 amounted to 313,000 tonnes of FFB. This represented an increase of some 6.5 per cent on the FFB crop for 2004 of 294,000 tonnes but a shortfall of 5.4 per cent on the 2005 budgeted crop of 331,000 tonnes. The failure to achieve the budgeted crop is attributed by the directors to the level of rain which approached 5,000 mm over 2005 as a whole against some 4,000 mm in the preceding year.

Particularly heavy rains during April and early May 2005 caused the Belayan and Mahakam rivers to flood and resulted in significant operational disruption. There were then further heavy rains in November and December (with nearly 1,000 mm in November). Whilst these later rains did not cause the degree of disruption experienced in April and May 2005, they did mean that the group was unable, during the peak cropping period of the second half of the year, to recover the budget shortfalls of the first half.

CPO and palm kernel outputs for 2005 amounted to, respectively, 73,000 tonnes and 13,000 tonnes reflecting extraction rates of 23.3 per cent for oil and 4.0 per cent for kernels. These rates were below the extraction rates of 2004 when 71,000 tonnes of CPO and 12,000 tonnes of kernels were produced. The reduction in extraction rates is attributed by the directors to the heavy rains referred to above as very damp conditions inhibit weevil activity and result in sub-optimal cross-pollination and poor fruit set.

With higher freight charges, the average US dollar FOB price per tonne realised in respect of 2005 sales of CPO was approximately 14 per cent lower than that of 2004.

As explained under "Scope of operations" above, some delays were caused to the group's planned extension planting programmes for 2005 (comprising 3,000 hectares in the nucleus area and 1,500 hectares in the new joint venture area) by representations from certain affected local villagers who were seeking to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected villagers had been allayed, by abnormally high rainfall in the last quarter of 2005. As a result, the 2005 programmes will now be completed during 2006. Given that a limited delay in the transfer of oil palm seedlings from nursery to field should have no effect on the maturing of the resultant plantings, the directors are confident that, provided that there are no further material delays (and none have been experienced to-date in 2006), the late completion of the 2005 programmes will not have a material long term adverse effect on future crops.

The extension planting programme in respect of which planting out commenced in 2004 will not make any worthwhile contribution to crops until 2007. Accordingly, the group is budgeting for an FFB crop in 2006 of 353,000 tonnes. Crops for the first two months of 2006 have been ahead of budget but monthly crop fluctuations are normal and the crops achieved to-date should not be taken as indicating any likelihood that the crop for 2006 will be above budget.

Higher world freight rates continue to cause a high differential between CPO prices CIF Rotterdam and FOB East Kalimantan and this, together with higher operating costs in US dollar terms and, in particular, the increased cost of diesel following the removal of government subsidies, will have some adverse effect on operating margins going forward. Nevertheless, the directors believe that the outlook for CPO demand looks positive given the increasing use of CPO as a biofuel. Accordingly they expect that, absent further weather abnormalities, 2006 will prove to be a satisfactory year.

Beyond 2006, the directors foresee significant year on year increases in output as new plantings under the extension planting programme progressively come into production and move to full yield. This should be positive for the group's future.



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## PART VI. FINANCIAL INFORMATION

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### 1. Historical financial information

Historical financial information concerning the group, covering the three years ended 31 December 2004 and incorporating the statutory accounts of the company for those years, is set out in the annual reports of the company for the years 2002, 2003 and 2004. All of such statutory accounts were prepared in accordance with UK GAAP and were audited.

This document incorporates by reference those pages of the annual reports of the company for 2002, 2003 and 2004 that contain the auditors' reports, financial statements, accounting policies and notes to the financial statements for each of the three years ended 31 December 2004. Those annual reports may be accessed as described under, and the pages containing the information incorporated by reference are detailed under, "Referenced information" in Part VIII below.

In the audit report in respect of the year ended 31 December 2002, the auditors referred to fundamental uncertainties as respects the adverse economic, political and social conditions affecting the group's operations in Indonesia and the rescheduling of REA Kaltim's loans, in the following terms:

#### "Fundamental uncertainties

In view of the significance of the group's operations in Indonesia, the group continues to be exposed to adverse economic, political and social conditions. In forming our opinion we have considered the adequacy of disclosures made in [note 23 to the 2002 financial statements] concerning the economic, political and social situation in Indonesia and its effect on the group.

Although exchange rates and other economic indicators were less volatile during the year, it is not possible to determine the effect that social unrest, political change or further deterioration in economic conditions may have on the future values of assets, earnings, profitability or cash flows of the group. The financial statements include the effects of these factors so far as can currently be determined and estimated.

The financial statements have been prepared on a going concern basis. There remains a fundamental uncertainty as to the effect on the group's operations of the economic, political and social conditions in Indonesia.

In forming our opinion, we have considered the adequacy of disclosures made in [Notes 7 and 23 to the 2002 financial statements] concerning the default of payment of interest by PT REA Kaltim Plantations on its loans, and the uncertainty over the rescheduling or replacement of these loans.

In view of the significance of these uncertainties we consider that they should be brought to your attention but our opinion is not qualified in this respect."

No references to these uncertainties were required in the audit reports for the years ended 31 December 2003 and 31 December 2004. This was because the economic, political and social conditions affecting the group's operations in Indonesia were perceived to be more stable in 2003 and 2004 and the rescheduling and/or repayment of REA Kaltim's loans made considerable progress during 2003 and was successfully completed during 2004.

The audit report in respect of each year of the three years ended 31 December 2004 was unqualified within the meaning of sections 235 to 237 of the Act.

**2. Interim financial information**

Interim financial information concerning the group, covering the six months ended 30 June 2005, together with comparative financial information for the six months ended 30 June 2004 and the year ended 31 December 2004, is provided in the interim report of the company for the six months ended 30 June 2005. Such interim financial information was prepared in accordance with IFRS and was unaudited.

This document incorporates by reference those pages of the interim report of the company for the six months ended 30 June 2005 that contain the consolidated financial statements, accounting policies and notes to the consolidated financial statements for the six months ended 30 June 2005. That interim report may be accessed as described under, and the pages containing the information incorporated by reference are detailed under, "Referenced information" in Part VIII below.

**3. Operating and financial review**

***Production and revenue***

The following table shows the group's crops and production and an analysis of the group's sales by geographical destination for each of the three years ended 31 December 2004. The information included therein has been extracted without material adjustment from key statistics published in the 2004 annual report of the company and the statutory accounts of the company for the three years ended 31 December 2004.

	2002	2003	2004
	Tonnes	Tonnes	Tonnes
FFB crop	<u>199,184</u>	<u>222,713</u>	<u>293,883</u>
CPO	49,604	55,426	71,473
Palm kernel	<u>9,094</u>	<u>9,189</u>	<u>12,169</u>
	<u>58,698</u>	<u>64,615</u>	<u>83,642</u>
	£'m	£'m	£'m
Sales by destination			
United Kingdom	0.2	0.2	0.1
Indonesia	12.1	10.4	11.4
Other South East Asia	<u>0.5</u>	<u>3.2</u>	<u>4.6</u>
Total sales	<u>12.8</u>	<u>13.8</u>	<u>16.1</u>

Underlying the increasing production over the three year period was the developing maturity of the operations. The area in cropping rose from 12,334 hectares in 2002 to over 13,000 hectares in 2004. This rise was accompanied by an increase in the FFB yield per mature hectare from 16.1 tonnes to 22.4 tonnes as the areas in cropping grew towards full maturity. Extraction rates remained reasonably consistent over the period at just over 24 per cent for CPO and 4 per cent for palm kernels. The directors believe that the FFB crop for 2003 would have been higher were it not for very dry conditions during 2002.

There was a general firming of CPO prices, CIF Rotterdam, over the three years with the average CPO price rising from \$330 per tonne at the start of 2002 to \$420 per tonne at the end of 2004 after a peak of \$550 per tonne in March 2004. However, the impact of this movement on revenues was tempered by increases in world freight rates over the period which offset a significant element of the benefit that would otherwise have accrued.

The value of the US dollar against sterling declined materially over the period from an average dollar sterling exchange rate to £1 of \$1.51 in 2002 to \$1.84 in 2004 (with an average rate for 2003 of \$1.64). This meant that the percentage increase in sales over the period was lower when expressed in sterling than in US dollar terms.

For the six months to 30 June 2005, crops and output were negatively affected by heavy rains in April and May 2005 which caused the Belayan and Mahakam rivers to flood. This resulted in significant operational disruption with a consequent impact on harvesting efficiency and fruit quality. As a result, the FFB crop amounted to 148,000 tonnes for the six months to 30 June 2005 against 147,000 tonnes for the

comparable period of 2004. CPO and palm kernel production amounted to respectively 36,500 tonnes (35,500 tonnes) and 6,600 tonnes (6,100 tonnes). Selling prices averaged \$418 per tonne CIF Rotterdam (\$512 per tonne). With an average dollar sterling exchange rate for the period of \$1.79 to £1 (\$1.82), sales in the period were £8.2 million (£8.8 million). The production and revenue figures in this paragraph are directly comparable with the production and revenue figures for the year ended 31 December 2004 shown in the table above as those figures are the same under UK GAAP and IFRS.

As the above table shows, throughout the three years to 31 December 2004, most sales were made either locally in Indonesia or in other parts of South East Asia. The pattern of sales during the six months to 30 June 2005 was similar.

### ***Profitability***

The following table shows the group's earning before interest, tax, depreciation and amortisation, and profit on ordinary activities before taxation, for each of the three years ended 31 December 2004 as extracted without material adjustment from the statutory accounts of the company for each of those years. Those accounts were prepared in accordance with UK GAAP and were audited.

	2002	2003	2004
	£'000	£'000	£'000
Earnings before interest, tax, depreciation and amortisation	3,979	6,190	8,288
Profit on ordinary activities before taxation and minority interests	1,456	2,070	4,685

The improvement in profitability over the period reflected the increasing sales detailed above and the fixed cost nature of the group's operations. Costs expressed in sterling terms also benefited from the decline in the US dollar against sterling over the period (as also detailed above).

The interim results for the six months to 30 June 2005 were prepared under IFRS and were materially affected by the changed accounting treatment under IFRS in relation to biological assets (in the group's case, its oil palm plantings and nurseries). Under IFRS, depreciation is no longer charged on biological assets; instead, such assets are restated at fair value at each reporting date and the movement on valuation over the period, after adjustment for additions and disposals, is taken to income. This resulted in a gain on biological assets for the six months to 30 June 2005 of £2.4 million as compared with a gain of £1.8 million included in the results, as restated under IFRS, for the six months to 30 June 2004.

Earnings before interest, tax depreciation and movement on biological assets, and profit before tax and minority interests, for the six months to 30 June 2005 amounted to, respectively, £3.7 million and £5.4 million, as compared with £4.6 million and £5.2 million for the six months to 30 June 2004 and £8.5 million and £9.2 million for the year to 31 December 2004 (such comparable figures being as restated under IFRS). The broadly unchanged 2005 interim profit before tax and minority interests, as compared with 2004, principally reflected the almost unchanged level of palm product outputs for the period as detailed under "Production and revenue" above.

### ***Dividends***

The semi-annual dividends falling due in respect of the preference shares in each of June 2002, December 2002 and June 2003 were deferred. Preference dividends were paid on 31 December 2003 and 30 June 2004 in amounts equal to the fixed semi-annual dividends then falling due being, in each case, some £256,000. By agreement with the holders of preference shares, all arrears of preference dividend were then eliminated in July 2004 by a capitalisation issue of further preference shares equivalent in aggregate nominal value to the arrears of dividend, namely £1,027,000. Since then all semi annual preference dividends have been duly paid. No dividend has been paid on the ordinary shares since 31 January 2000.

Information regarding future dividend policy is provided under "Dividend policy" in Part III above.

### ***Financial condition***

The following table shows the group's net debt and capital employed at 31 December of each of the three years 2002 to 2004, compiled from figures extracted without material adjustment from the audited consolidated balance sheets of the company as at those dates (as prepared in accordance with UK GAAP), together with the ratio of net debt to capital employed as at each of those dates (as derived from those amounts and expressed as a percentage).

	2002	2003	2004
	£'m	£'m	£'m
Net debt	27.9	20.2	17.9
Capital employed	21.8	27.8	33.9
	%	%	%
Ratio of net debt to capital employed	128	73	53

Following the adoption of IFRS, net debt and capital employed at 30 June 2005 amounted to, respectively, £17.2 million and £41.2 million as compared with £17.4 million and £35.3 million at 31 December 2004 (as restated in accordance with IFRS). Accordingly, the six month period to 30 June 2005 saw a further reduction in the ratio of net debt to capital employed to 42 per cent (as compared with the ratio of 49 per cent at 31 December as recalculated from the IFRS restated figures as at that date).

The progressive reduction in the ratio of net debt to capital employed over the period from 31 December 2002 to 30 June 2005 (being the combined result of increasing capital employed and reducing net debt over that period) provides a measure of the financial impact on the group of the staged implementation of the restructuring and refinancing of the group referred to under "Context of the proposals" in Part III above. The reduction was principally the result of the significant events detailed below, the retention of profits over the period and, at 30 June 2005, the revaluation of biological assets on conversion to IFRS.

A general description of the evolution of the group's business over recent years, together with information regarding environmental and employee matters and development objectives is provided within Part V above.

### ***Significant events***

Summaries of significant events that impacted the financial position of the group during each of the three years ended 31 December 2004 are set out below.

- 2002

In April 2002, the company acquired the whole of the issued ordinary share capital and a proportion of the issued preference share capital of a newly established company, MP, which, immediately prior to its acquisition by the company, had acquired all of the issued shares of Makassar other than those owned by the company and the MEZ group. This resulted in the company and MP together owning 51 per cent of the issued ordinary share capital of Makassar.

In May 2002, the company raised £3.8 million (before expenses) by way of an underwritten open offer of £3.8 million nominal of 4 per cent convertible loan stock 2012. With these monies, the company supported a rights issue by Makassar. As the MEZ group did not take up any of its rights entitlements, this resulted in the group increasing its equity interest in Makassar to 79.2 per cent.

Makassar was able, with the proceeds of its rights issue, to provide financial support to REA Kaltim. This enabled REA Kaltim to move forward with proposals for the restructuring of its debt.

In May 2002, at the same time as they approved the underwritten open offer of convertible loan stock, the company's shareholders also approved the sale by

the company of its remaining 25 per cent interest in Deundi Tea Company Limited, the owner of three tea estates in Bangladesh. This sale completed implementation of a previous decision of the directors to base the group's future entirely on the East Kalimantan operations.

- 2003

In March 2003, the company raised £3.4 million (before expenses) by way of a placing and open offer of 4,620,185 new ordinary shares at 73p per share. This was followed in September 2003 with a placing of 1,300,000 new ordinary shares at 146p per share, raising an additional £1.9 million (before expenses).

The company applied the monies so raised by it in subscribing further Makassar ordinary shares. Those shares were issued by Makassar in October 2003 pursuant to another rights issue in which the company and MP subscribed in full for their rights entitlements and also for the entitlements of the MEZ group, which the MEZ group did not take up. This resulted in the group increasing its equity interest in Makassar to 87.7 per cent.

- 2004

With the monies raised by it pursuant to its 2003 rights issue, Makassar was able to provide additional financial support to REA Kaltim which permitted REA Kaltim to complete the restructuring of its debt during 2004. This was achieved in April 2004 with the drawdown by REA Kaltim of a new loan of \$11 million from PT Bank Niaga Tbk and application of the loan proceeds in repayment of the remaining unrescheduled component of REA Kaltim's bank indebtedness. As the same time, REA Kaltim, financed by Makassar, repaid its outstanding indebtedness to the MEZ group.

To facilitate completion of the REA Kaltim debt restructuring, the group purchased, at a discount, certain loan balances owed by REA Kaltim, thereby reducing the group's overall indebtedness.

Also, during 2004, the company issued some 2.8 million new preference shares at par. Of these, approximately one million shares were issued pursuant to the scheme to eliminate the arrears of preference dividend (as referred to under "Dividends" above). The balance of such shares were issued for cash with some £1.1 million of the cash proceeds being utilised to fund the purchase by R.E.A. Services Limited, a subsidiary of the company, of £250,000 nominal of 4 per cent convertible loan stock 2012 of the company and the remainder of such proceeds being retained as a cash reserve.

Other than the effects (described under "Profitability" above) on the group's financial statements caused by the change from UK GAAP to IFRS, there were no significant events that impacted the financial position of the group during the six months ended 30 June 2005.

#### *External influences*

As explained under "Context of the proposals" in Part III above, the group was materially affected by economic events in Indonesia in late 1997 and early 1998 and subsequently by a fall in the price of CPO which moved from a high of \$705 per tonne in May 1998 to a low \$234 per tonne in May 2001. The period from 2002 to-date has seen recovery in the Indonesian economy and a firming of CPO prices as described under "Production and revenue" above. Accordingly, beyond the group's normal dependence on the movement of the CPO market, the group was not materially affected by governmental, economic, fiscal, monetary or political policies or factors during the three years ended 31 December 2004 and has not subsequently to-date been so affected.

Risks and uncertainties facing the group going forward are discussed in Part II above. With all of the group's operations located in the East Kalimantan province of Indonesia, the group is inherently dependent both on the political and economic condition of Indonesia and on the policies of the provincial administration in East Kalimantan. The directors have no reason to believe that the central government of Indonesia or any provincial authority would seek to restrict the group's freedom to manage its operations or would impose any fiscal changes that would create an excessive burden for the group. However, there can be no certainty as to this.

**4. Capitalisation and indebtedness**

Set out below are a statement of the group's capitalisation extracted without material adjustment from the unaudited consolidated balance sheet of the company at 30 June 2005 (as published in the interim report of the company for the six months ended 30 June 2005) and statements of the group's indebtedness and net financial indebtedness as at 24 February 2006 (following completion of the settlement agreement on 21 February 2006 and the issue of 1,372,000 ordinary shares on 22 February 2006 at 260p per share) as sourced from internal management information (being information which is unaudited).

	£'000
<b><i>Capitalisation and indebtedness</i></b>	
Equity	
Issued share capital	13,536
Reserves	<u>1,657</u>
	<u>15,193</u>
Current debt	
Guaranteed	-
Secured*	2,733
Unguaranteed / unsecured	<u>286</u>
	<u>3,019</u>
Non current debt (excluding current portion of long term debt)	
Guaranteed	-
Secured*	21,161
Unguaranteed / unsecured	<u>14,289</u>
	<u>35,450</u>
<b>Total</b>	<b><u>53,662</u></b>
* Secured by charges over substantially the whole of the assets and undertaking of REA Kaltim	
<b><i>Net financial indebtedness</i></b>	
Liquidity	
Cash	(5,653)
Cash equivalents	-
Trading securities	-
	<u>(5,653)</u>
Current financial receivable	<u>(1,716)</u>
Current financial debt	
Current bank debt	286
Current portion of non current debt	2,733
Other current financial debt	-
	<u>3,019</u>
Net current financial indebtedness	<u>(4,350)</u>
Non current financial indebtedness	
Non current bank loans	21,161
Bonds issued	14,289
Other non current loans	-
	<u>35,450</u>
Net financial indebtedness	<u>31,100</u>

Reserves exclude group retained earnings at 30 June 2005 of £20,050,000.

The aggregate gross proceeds of share issues made in the period from 1 July 2005 to date, as detailed in sub-paragraphs (E)(xv) to (E)(xix) under "Share capital" in Part VIII below, amounted to £3,881,000. After provision for the expenses of such issues of £222,000, there was a resultant increase of £1,598,000 in share capital and £2,061,000 in reserves. Save as aforesaid, there has been no change in the capitalisation of the company since 30 June 2005.

The group has no material indirect or contingent indebtedness.

**5. Capital resources**

***Recent cash flows***

The following table provides a summary of the cash flows of the group for the year ended 31 December 2004 and the six months ended 30 June 2005 and has been extracted without material adjustment from the consolidated cash flow statement of the company included in the interim report of the company for the six months ended 30 June 2005 which was prepared in accordance with IFRS. That interim report was unaudited.

	Year to 31 December 2004 £'000	6 months to 30 June 2005 £'000
Operating cash flows	8,445	3,716
Movements in working capital	(3,118)	734
Exchange differences	367	(231)
Taxes paid	(118)	(31)
Interest paid	(800)	(335)
Net cash flows from operating activities	4,776	3,853
Investing activities	(4,418)	(2,103)
Financing activities	(5,857)	(1,761)
	(5,499)	(11)
Opening cash and cash equivalents	6,790	1,061
Effect of exchange rate changes	(230)	43
Closing cash and cash equivalents	<u>1,061</u>	<u>1,093</u>

The significant outflow under movements in working capital in 2004 reflected the payment of substantial arrears of interest in respect of a loan to REA Kaltim that had been provided by the MEZ group and was repaid in 2004.

Investing activities for 2004 are made up of an aggregate cash inflow of £69,000, principally in respect of interest, and cash outflows of £3,420,000, representing development expenditure, and of £1,067,000, being monies expended by R.E.A. Services Limited, a subsidiary of the company, on the purchase of £250,000 nominal of 4 per cent convertible loan stock 2012 of the company. For the six months to 30 June 2005, investing activities are made up of a cash inflow of £60,000, in respect of interest, and a cash outflow of £2,163,000, representing development expenditure.

Financing activities for 2004 are a composite of cash inflows totalling £6,301,000 and cash outflows totalling £12,158,000. Of the cash inflows, £1,647,000 derived from issue of preference shares and a small number of ordinary shares and the balance of £4,654,000 from new borrowings. Cash outflows comprised £639,000 paid by way of dividends on the preference shares and £11,519,000 of debt repayments. For the six months to 30 June 2005, there was no cash inflow component to financing activities. Cash outflows comprised £383,000 paid by way of dividend on the preference shares and £1,378,000 of debt repayments.

For the period from 1 July 2005 to-date, net cash flows from operating activities, preference dividend payments and development expenditure have continued on a basis that is normal for the group. There have also been significant exceptional cash flows during the period. These have comprised:

- the sale of £250,000 nominal of 4 per cent convertible loan stock 2012 of the company (acquired in 2004 as noted above) for £1.1 million;
- drawdown of \$41 million under the new Indonesian consortium loan facilities pursuant to the contract summarised in sub-paragraph (3) under "Material contracts" in Part VIII below of which \$38 million was applied by REA Kaltim principally in repaying indebtedness (including intra group indebtedness of some \$9 million) and \$3 million has been used to augment REA Kaltim's working capital resources; and
- a cash outflow of \$6 million pursuant to the settlement agreement and its replacement with the net proceeds of £3.44 million (approximately equivalent

to \$6 million) from a placing of ordinary shares effected pursuant to the placing agreement summarised in sub-paragraph (7) under "Material contracts" in Part VIII below.

#### ***Current indebtedness and cash resources***

The current indebtedness of the group principally comprises some \$24 million of dollar notes and drawings of \$41 million under the Indonesian consortium loan facilities referred to above.

The outstanding dollar notes are listed debt securities of the company. The dollar notes are unsecured, carry interest at the fixed rate of 7.5 per cent per annum and are redeemable at par by three equal annual instalments commencing 31 December 2012.

The Indonesian consortium loan facilities are secured on the assets of REA Kaltim and are guaranteed by the company. The \$41 million drawn under the facilities represents tranche A of the aggregate facilities available and is repayable as follows: 2006 - \$3.75 million, 2007 - \$5.75 million, 2008 - \$6.75 million, 2009 - \$10.75 million and 2010 - \$14 million. Tranche B of the aggregate facilities, in the amount of \$4 million, remains available for drawing by REA Kaltim until 7 September 2009. If drawn down, tranche B would be amalgamated with tranche A, increasing the aggregate 2010 repayment by the amount of tranche B drawn down. Tranche A bears interest, and tranche B, if drawn, will bear interest, at a floating rate equal to 4 per cent per annum over Singapore Inter Bank Offered Rate from time to time. Pending drawdown, for so long as tranche B remains available for draw down, tranche B bears a commitment fee of 0.5 per cent per annum on the undrawn portion of the tranche.

The group currently has significant liquidity. As shown under "Capitalisation and indebtedness" above, this amounted at 24 February 2006 to the equivalent of \$12.9 million in aggregate. Upon and subject to completion of the ordinary share placing and open offer and preference share placing, such liquidity should be increased by a further \$11.7 million (being the estimated net proceeds from the placings and open offer converted at the latest dollar sterling exchange rate, less the \$5.6 million proposed to be utilised in funding the net cash outflow from the group that would result from the intended winding up of MP).

In addition, the group has undrawn bank facilities in Indonesia of \$3.0 million under a working capital line that is subject to annual renewal.

On the basis of figures extracted without material adjustment from the consolidated financial statements and notes thereto included in the interim report of the company for the six months ended 30 June 2005 (which were prepared in accordance with IFRS and were unaudited), interest cover (being taken as the ratio of earnings before interest, tax, depreciation and movement on biological assets to interest paid) was 5.3 for the year ended 31 December 2004 and 5.6 for the six months ended 30 June 2005. The ratios of net debt to capital employed for that year and period are detailed in "Financial condition" under "Operating and financial review" above.

#### ***Financing of planned development expenditure***

The group has plans for a significant development programme as detailed under "Scope of operations" in Part V above. Whilst future operating cash flows will be dependent upon a number of factors, the directors expect that, subject to completion of the proposed issue of new ordinary shares pursuant to the ordinary share placing and open offer, such cash flows together with the group's existing cash resources and available facilities (as augmented by such issue) will be sufficient to enable the group to fund both the planned development programme up to 31 December 2007 and debt repayments up to that date.

After 2007, further equity capital could be required if extension planting were to be continued at a high level. However, the extent of the requirement for such capital (if any) will be dependent upon CPO prices in the intervening period and the judgement of the directors at the time as to whether any extension planting programme proposed offers the prospect of returns sufficient to justify a further call for equity funding.



In projecting the availability of future cash resources to meet planned development expenditure, the directors have had, and will continue to have, due regard to their commitment to the continued payment of the fixed dividend on the preference shares and to the directors' stated intention, as referred to under "Dividend policy" in Part III above, that dividend payments on the ordinary shares should be resumed as soon as the directors are confident that the group's cash flow can safely support payment of such dividends.

#### *Treasury policies*

The group principally finances its operations from a combination of bank and other borrowings, operational cash flows and permanent capital raised from shareholders. Borrowings, as detailed above, are at both fixed and floating rates and the group does not hedge against its exposure to floating rates.

The group's policy towards currency risk is not to cover long term risk in respect of its investments. Almost all of the group's trade is based on US dollar pricing and all of the group's borrowings are US dollar denominated. The group maintains limited balances in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months but otherwise maintains substantially all cash balances in US dollars.

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 a target level of not more than 100 per cent of capital employed is appropriate to the group at its present stage of development.

#### *Other*

There are no restrictions on the use of available 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 facilities, REA Kaltim is restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, its shareholders but the directors do not believe that the applicable terms 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 seasonality to the group's funding requirements.

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## PART VII. DIRECTORS, EMPLOYEES AND CORPORATE GOVERNANCE

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### 1. Directors

(A) The directors of the company (all of whom have as their business address: Third Floor, 40-42 Osnaburgh Street, London NW1 3ND) are as follows

(i) *Richard Michael Robinow (Chairman)*

Mr Robinow was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, he has been involved for over 25 years in the plantation industry. He is a non-executive director but is actively involved for the major part of his working time in the management of the group. He is non-executive chairman of M.P. Evans Group plc, a UK plantation company the issued shares of which are admitted to trading on the Alternative Investment Market of the London Stock Exchange, and a non-executive director of two other plantation companies: Sipef NV, Belgium, and REA Vipingo Plantations Limited, Kenya. Aged 60.

(ii) *John Clifton Oakley (Managing Director)*

Mr Oakley was appointed a director in 1985 after early experience in investment banking and general management. He was appointed managing director on 1 January 2002. Aged 57.

(iii) *John McDonald Green-Armytage (Independent non-executive director)*

Mr Green-Armytage was a non-executive director of the company from 1984 to 1994. He rejoined the board in a non-executive capacity in 1997. He is chairman of AMEC PLC and a director of JZ Equity Partners Plc and a number of other companies. Aged 60.

(iv) *John Rankin Macdonald Keatley (Senior independent non-executive director)*

Mr Keatley was a non-executive director of the company from 1975 to 1983 (and chairman from 1978 to 1983). He rejoined the board in a non-executive capacity in 1985 and is now chairman of the audit, remuneration and nomination committees. After a background in the fertiliser industry, he is now chairman of NPK Holdings Limited. Aged 72.

(v) *Lionel Edgar Charles Letts (Independent non-executive director)*

Mr Letts has been a non-executive director since 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, he 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, he has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. Aged 87.

(vi) *Chan Lok Lim (Independent non-executive director)*

Mr Lim was appointed a non-executive director in August 2002. He has been involved for over 30 years with 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. He is a director of Pan Abrasives (Pte) Limited, Singapore, and ITE Electric Co., Ltd, a public company listed in Singapore. Aged 64.

(B) Directors fall due for retirement by rotation under the articles of association of the company as follows: 2006 – Mr Robinow and Mr Lim; 2007 – Mr Keatley and Mr Letts; and 2008 – Mr Green-Armytage and Mr Robinow. While Mr Oakley remains as managing director, his term of appointment as a director is unlimited. In

order to comply with the Combined Code, all of the directors other than Mr Oakley and Mr Lim intend to submit themselves for re-election every year and Mr Oakley and Mr Lim intend to submit themselves for re-election every three years, their current terms of three years expiring at the annual general meetings to be held in 2008 and 2006 respectively.

(C) The directors are of the opinion that they together possess appropriate expertise and experience with which to manage the group and the group is not dependent upon any other person for such expertise and experience.

(D) No director is a member of the family of any other director.

## 2. Directors' interests

(A) As at the date of this document, the interests in the shares and warrants of the company which (i) have been notified to the company pursuant to sections 324 or 328 of the Act, (ii) are required pursuant to section 325 of the Act to be entered in the register referred to therein, or (iii) are interests of a person connected (within the meaning of section 346 of the Act) with a director, which would, if that connected person were a director, be required to be disclosed under (i) or (ii) aforesaid and the existence of which is known to or could with reasonable diligence be ascertained by that director, are as follows (all such interests being beneficial interests):

	<i>Preference shares</i>	<i>Ordinary shares</i>	<i>Warrants</i>
R M Robinow	113,329	-	116,900
J C Oakley	453	63,623	-
J M Green-Armytage	2,896	55,861	21,000
J R M Keatley	2,007	648,456	-
L E C Letts	4,304	102,865	-
C L Lim	-	-	-

In addition Mr J C Oakley has been granted an option to subscribe up to 1,003,824 ordinary shares at a price of 44.8p per share exercisable at any time up to 21 May 2012.

(B) Save as respects compliance obligations imposed by the Model Code (as defined in the Listing Rules) and by the general law, there are no restrictions on the disposal of any securities of the company held by any director.

(C) No director is currently, or has been within the five years preceding the date of this document, a partner in a partnership. Companies of which the directors are currently, or have been within the five years preceding the date of this document, directors, in addition to the company and its subsidiaries, are as follows

(i) *R M Robinow*

(a) Current directorships – Aftex Limited, British New Guinea Development Limited, Deundi Tea Company Limited, Emba Holdings Limited, Emba Services Limited, M.P. Evans Group plc, Portshare Limited, Proprietary Trustees Limited, REA Vipingo Plantations Limited, R.E.A. Trading Limited, Robinow Limited, Rue des Binelles Property Limited, Sipef NV, Sisal and General Consultants Limited, Unitbuckle Holdings Limited, Unitbuckle Limited, Wigglesworth & Co. Limited and Wellington plc.

(b) Past directorships - Amboni Estates Limited, Anglo American Agriculture plc, Arkriver Pty Limited, Larchcroft Limited, Makassar Limited and Padang Senang Holdings Plc.

(ii) *J C Oakley*

(a) Current directorships – None.

(b) Past directorships – None.

(iii) *J M Green-Armytage*

(a) Current directorships – Active Capital Trust PLC, Acuma Holdings Limited, Amec PLC, Berkeley (Insurance) Holdings Limited, Cannock Chase Capital BV, Collecta Servicios de Gestion de Cobros S.A., Freedom Finance Holdings Limited, Grupo Galilea Puig SA, Guards Polo Club Holdings Limited, Hurlingham Polo Association Limited, Jordan/Zalaznick & Co Limited, Jordan/Zalaznick (Holdings) Limited, JZ Equity Partners Plc, JZI Finance 1 Limited, JZI Finance 2 Limited, JZ Financial Services BV, JZ International Limited, JZ Insurance Services BV, JZ Insurance Investments SLU, JZ Italy srl, JZ Mortgage Services BV, JZ Prevhold BV, Mace Investments Limited, Mace Management Services Limited, Previnet Spa, Star Capital Partners Limited and William Evans Holdings Limited.

(b) Past directorships – The Aim Trust PLC, Children's Consumer Products UK Limited, International Biotechnology Trust PLC, Mancal Corporation International and Vivid Imaginations Holdings (UK) Limited.

(iv) *J R M Keatley*

(a) Current directorships – Ashtenne Residential Limited, Cantabridgia Limited, Enterprise Heritage Capital Limited, Enterprise Heritage Capital II Limited, Nash Fordham Limited and NPK Holdings Limited

(b) Past directorships – Ashtenne Residential Capital Limited.

(v) *L E C Letts*

(a) Current directorships – The China Club Limited, China Investment Fund (BVI) Limited and Ilco Pte Limited.

(b) Past directorships – Batu Kawan Berhad, Cluff Oil (Singapore) Limited, Dynea Malaysia Sdn Berhad, Farming Management Services Pty Limited, Kuala Lumpur Kepong Berhad, PT Multi Mechsindo Industries, Rex Plastic (Malaysia) Sdn Berhad, Rheem (Far East) Pte Limited and Rheem (Malaysia) Berhad.

(v) *C L Lim*

(a) Current directorships – Agumil Philippines, Inc, Agusan Plantations, Inc, Bantayan Island Power Corporation, Bohol Light Company, Inc, Bohol Water Utilities, Inc, Clerk Holdings Sdn Bhd, Hayako Utama Pte Ltd, ITE Electric Co., Ltd, ITE Electric Phils. Co., Inc, Kovet Pte Ltd, Mactan Electric Company, Pacwest (M) Sdn Bhd, Pan Abrasives (Aust) Pty Ltd, Pan Abrasives (Pte) Ltd, Pan Abrasives Sdn Bhd, Pan Abrasives Thailand Ltd, Pan Abrasives, Inc, Panabrator (Private) Limited, PPDIC Management Co., Inc, Salcon International, Inc, Salcon Island Power Corporation, Salcon Power Corporation, Salcon Technologies, Inc, Salmin Water Resources, Inc, Salcon Properties & Development Corporation, SPEC Properties, Inc, Speedlock Pty Ltd, Visland Water Corporation and Western Panay Hydropower Corporation.

(b) Past directorships – Aspac Properties Co., Ltd, Astoria Sdn Bhd, First Consolidated Bank Inc, Gima Technology Pte Ltd, IBR Bio-Recovery (Van. Is.) Limited, International Bio Recovery Corporation, Myanmar Salcon Limited, Nothern Davao Power Corporation, Pan Abrasives Inc, Pan Intermart Pte Ltd, Pan Salcon Asia Limited, Pan Sinto Pte Ltd, Pan Technologies Pte Ltd, Panabrator (Private) Ltd, PT Multi Mechsindo Industries, PT Salindo Jaya Perkasa, Rolform Sdn Bhd, Salcon (Auslralasia) Pty Ltd, Salcon Bio Technologies Pte Ltd, Salcon Engineering GmbH, Salcon Harbin Corporation, Salcon Invent Limited, Salcon Limited, Salcon Philippines, Inc, Salcon Thai Co. Ltd, Salcon-Waltech (Asia) Limited, Salpro Sdn Bhd, Solar Technology Pte Ltd, Steel & FRP Fabrication Co. Ltd, Taipan Asia Sdn Bhd and Tricol Pte Ltd.

(D) Within the five years preceding the date of this document, no director has been convicted in relation to any fraudulent offence or been adjudged bankrupt or entered into an individual voluntary arrangement; has been associated as a director or senior manager (or otherwise as a member of any administrative, management or supervisory committee) with any company being placed in receivership, compulsory

liquidation, creditors' voluntary liquidation or administration or becoming the object of, or agreeing to, any form of company voluntary arrangement or any composition or arrangement with its creditors generally; has been associated as a partner with a partnership being placed in compulsory liquidation or administration or being the object of a partnership voluntary arrangement; has had, or has been associated as a partner with a partnership having, an asset which has been the subject of a receivership; or has been subject to any public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director (or member of any administrative, management or supervisory committee) of, or from acting in the management or conduct of the affairs, of any company.

(E) No director was appointed as a director pursuant to an arrangement or understanding with a major shareholder, customer, supplier or other person.

(F) As noted in paragraph (A) under "Directors" above, Mr Robinow is chairman of M.P. Evans Group plc and a director of Sipef NV. Both M.P. Evans Group plc and Sipef NV have interests in oil palm plantations in Indonesia. Since CPO is sold into an international market, the group does not compete for sales with other producers of CPO. Moreover neither M.P. Evans Group plc nor Sipef NV has operations within East Kalimantan.

(G) As detailed under "Significant shareholders" in Part VIII below, Mr Robinow and his immediate family have a substantial interest in Emba, a significant shareholder in the company. Emba has agreed that it will not undertake activities in conflict with those of the group.

(H) Save as referred to in paragraphs (F) and (G) above, no director of the company has any potential conflicts of interest between his duties to the company and his private interests or other duties.

### 3. Directors' remuneration

(A) The remuneration paid and benefits in kind granted by the group to each of the directors in respect of the financial year ended 31 December 2005 were as follows:

	<i>Remuneration</i> £'000	<i>Benefits</i> £'000	<i>Total</i> £'000
R M Robinow	3	9	12
J C Oakley	243	7	250
J M Green-Armytage	-	-	-
J R M Keatley	13	-	13
L E C Letts	3	-	3
C L Lim	-	-	-

In addition, aggregate amounts were paid for 2005 of £246,000 in respect of Mr Robinow, £13,000 in respect of Mr Green-Armytage, £13,000 in respect of Mr Letts and £13,000 in respect of Mr Lim to companies in which Mr Robinow, Mr Green-Armytage, Mr Letts and Mr Lim were, respectively, interested in respect of those directors' services as directors.

(B) Mr Oakley is an ordinary member of the R.E.A. Pension Scheme which is a multi employer contributory defined benefits scheme with assets held in a trustee administered fund. The pension contribution payable by the group in respect of Mr Oakley for 2005 was £38,000. No pension contribution is payable in respect of any other director.

(C) No director has or is proposed to have a service contract with the company or any of its subsidiaries having a notice period of one year or more or containing provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

**4. Employees**

The average number of persons employed by the group during each of the three years ended 31 December 2004 and their allocation by activity was as follows:

	2002	2003	2004
Agricultural – permanent	2,785	2,281	2,140
Agricultural – temporary	468	506	573
Head office	<u>6</u>	<u>6</u>	<u>6</u>
	<u>3,259</u>	<u>2,793</u>	<u>2,719</u>

Head office staff are based in England but all other employees work in Indonesia.

**5. Corporate governance**

(A) The company is committed to high standards of corporate governance and seeks to apply, in a manner proportionate to its size, the principles laid down in the Combined Code.

(B) The board has appointed audit, nomination and remuneration committees, with written terms of reference, to undertake certain of the board's functions. Further information regarding the audit and remuneration committees is provided under "Audit committee" and "Remuneration committee" below. The nomination committee is responsible for recommending new appointments to the board.

(C) The company does not fully comply with the provisions of the Combined Code as respects the composition of the audit and remuneration committees in that the Combined Code provides that all members of both committees should be independent non-executive directors whereas, in the company's case, both committees consist of two independent non-executive directors and Mr Robinow who, although non-executive, may not by virtue of his involvement in the day-to-day management of the group, and his position as chairman, be regarded as an independent non-executive director. Any matter concerning Mr Robinow is discussed without Mr Robinow being present.

In view of the significant interest of Mr Robinow and his family in the ordinary shares of the company (held through Emba, as detailed under "Significant shareholders" in Part VIII below), the directors believe that the audit and remuneration committees operate effectively as constituted and are appropriate to the present scale of the group's operations. The directors do not consider that it would not be in the best interests of shareholders to appoint another non-executive director to sit on the audit and remuneration committees.

In addition, the company does not comply with a provision of the Combined Code requiring that the company arrange appropriate insurance against legal action against its directors. The company has not carried such insurance for the benefit of its directors since 31 December 2004 because the recently settled litigation (as referred to under "Background" in Part III above) has meant that, since that date, the company has been unable to effect such insurance on reasonable commercial terms and without acceptance of exclusions to the cover that would render it of little value to the directors. Once claims for directors' litigation costs relating to the recently settled litigation have been agreed with the company's former insurance carrier, the company intends to re-approach the insurance market to establish whether new cover against legal action against the directors can be put in place on a realistic commercial basis.

(D) Save as respects the composition of the audit and remuneration committees and as regards insurance against legal action against its directors, all as detailed in paragraph (C) above, the company complies with the provisions of the Combined Code.

**6. Audit committee**

(A) The audit committee comprises Mr Keatley (chairman), Mr Letts and Mr Robinow. It is responsible for:

- monitoring the integrity of the financial statements and the significant reporting judgements that they contain;
- reviewing the effectiveness of the internal audit function;
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and 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 fees paid to the auditors in respect of non-audit work.

(B) 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 from management and the external auditors and by holding at least one formal meeting in each year.

**7. Remuneration committee**

(A) The remuneration committee comprises Mr Keatley (chairman), Mr Letts and Mr Robinow. It is responsible for:

- setting the remuneration and benefits of each executive director and the chairman of the company;
- recommending and monitoring the remuneration of those members of senior management that the directors decide should be treated as falling within the ambit of the committee; and
- setting remuneration policy so as to attract, retain, motivate and fairly reward individuals of a high calibre, while seeking to ensure that the remuneration structure is consistent with the best interests of the company and its shareholders.

The committee would also consider any proposal for Mr Oakley (the sole executive director of the company) to hold outside directorships.

(B) The members of the remuneration committee discharge their responsibilities by informal discussions between themselves and by holding at least one formal meeting in each year.

## PART VIII. ADDITIONAL INFORMATION

**1. Responsibility** The directors (whose names and functions are shown in sub-paragraph (A) under "Directors" in Part VII above) and the company (of which the registered office is shown in sub-paragraph (A) under "The company" below) accept responsibility for the information contained in this document. To the best of the knowledge of the directors and the company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect its import.

**2. The company** (A) The company was incorporated and registered in England and Wales on 27 September 1960 as a private company limited by shares under the Companies Act 1948 with registered number 671099 and was re-registered on 15 February 1982 as a public limited company under the Companies Acts 1948 to 1980. The company is subject to the provisions of the Act. The registered and head office of the company is Third Floor, 40-42 Osnaburgh Street, London NW1 3ND (telephone + 44 (0)20 7419 0100).

(B) The company is the parent company of a group of companies and is not itself a subsidiary of any other company. The principal undertakings of the group are the East Kalimantan operations owned by the company's subsidiaries, REA Kaltim and PT Sasana Yudha Bakti. The group's financial position and profitability is materially dependent upon those undertakings.

**3. Share capital** (A) The existing authorised and issued share capitals of the company are as follows:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
		£		£
Preference shares	11,500,000	11,500,000	8,502,631	8,502,631
Ordinary shares	38,000,000	9,500,000	26,512,049	6,628,012

(B) Approval of the proposed increases in the authorised capital of the company provided for in the first and second resolutions set out in the notice of extraordinary general meeting of the company convened for 18 April 2006 and completion of the preference share placing, the ordinary share placing and the open offer would (on the assumption that the maximum number of new ordinary shares that could fall to be issued pursuant to the ordinary share placing and open offer would be issued) result in the authorised and issued share capitals of the company becoming as follows:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
		£		£
Preference shares	14,500,000	14,500,000	11,502,631	11,502,631
Ordinary shares	41,000,000	10,250,000	29,340,049	7,335,012

(C) The company has outstanding 1,548,807 warrants, each of which entitles the holder, on 31 July in any year up to and including 2013, to subscribe one ordinary share at a price of 73.5p either by payment of 73.5p in cash or by surrender of 0.735 fully paid preference shares registered in the name of the holder of the warrant. Approval of the proposed amendments to the warrant terms provided for in the first resolution set out in the notice of meeting of warrant holders convened for 18 April 2006 and such amendments becoming unconditional will result in the subscription price of 73.5p being reduced to 60p and the period during which subscription rights may be exercised being shortened so as to procure the early exercise of the warrants as described under "Warrant rights" in Part III above.



(D) As an executive incentive, the company has granted an option to Mr J C Oakley whereby Mr Oakley is entitled, until 21 May 2012, to subscribe up to 1,003,824 ordinary shares at a price of 44.8p per share. The number of ordinary shares the subject of the option and/or the exercise price may be adjusted following any variation in the issued ordinary share capital of the company in such manner as the directors may determine to be fair and reasonable.

(E) Changes in the share capital of the company that occurred during the three years ended 31 December 2004 and subsequently to-date have been as follows:

- (i) on 26 April 2002, 300,077 ordinary shares were issued at 45p per share, credited as fully paid, as consideration for the acquisition of 2,753 issued preference shares in MP;
- (ii) on 17 March 2003, the authorised capital was increased by £1,000,000 by the creation of 4,000,000 ordinary shares;
- (iii) on 18 March 2003, 2,470,185 ordinary shares were issued, fully paid, pursuant to an open offer to holders of ordinary shares, warrants and 4 per cent convertible loan stock 2012 at 73p per share and 2,150,000 ordinary shares were issued, fully paid, by way of a placing also at 73p per share;
- (iv) on 9 July 2003, 27,464 ordinary shares were issued, fully paid, at a price of 53p per share on conversion of £14,556 nominal of 4 per cent convertible loan stock 2012;
- (v) on 8 August 2003, 7,444 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights against subscriptions in cash at 73.5p per ordinary share;
- (vi) on 23 September 2003, 1,300,000 ordinary shares were issued, fully paid, by way of a placing at 146p per share;
- (vii) on 10 February 2004, 858,737 ordinary shares were issued, fully paid, at a price of 53p per share on conversion of £455,131 nominal of 4 per cent convertible loan stock 2012;
- (viii) on 14 July 2004, 515,105 ordinary shares were issued, fully paid, at a price of 53p per share on conversion of £273,006 nominal of 4 per cent convertible loan stock 2012;
- (ix) on 29 July 2004, the authorised capital was increased by £2,250,000 by the creation of 2,250,000 preference shares;
- (x) on 30 July 2004, 1,000,000 preference shares were issued, fully paid, by way of placing at £1 per share;
- (xi) on 30 July 2004, 1,026,643 preference shares were issued, credited as fully paid, by way of a capitalisation issue of 18 new preference shares for every 100 preference shares held in lieu of the accrued unpaid dividends on the said preference shares;
- (xii) on 17 August 2004, 65,300 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights of which 62,455 ordinary shares were issued against subscriptions in cash at 73.5p per ordinary share and 2,855 ordinary shares were issued against surrender of 2,099 preference shares;
- (xiii) on 8 October 2004, 772,965 preference shares of £1 each were issued, fully paid, by way of a placing at £1 per share;
- (xiv) on 15 June 2005, the authorised capital was increased from £17,500,000 to £21,000,000 by the creation of 4,000,000 ordinary shares and 2,500,000 preference shares;
- (xv) on 8 July 2005, 12,849 ordinary shares were issued, fully paid, at a price of 53p per share on conversion of £6,810 nominal of 4 per cent convertible loan stock 2012 of the company;

- (xvi) on 9 August 2005, 2,800 ordinary shares were issued, fully paid, in satisfaction of the exercise of warrant rights against subscriptions in cash at 73.5p per ordinary share;
- (xvii) on 13 September 2005, 610,074 ordinary shares were issued, fully paid, at a price of 50p per share on conversion of £305,037 nominal of 4 per cent convertible loan stock 2012 of the company;
- (xviii) on 14 September 2005, 4,392,513 ordinary shares were issued, credited as fully paid, by way of a capitalisation issue of 144 new ordinary shares for every 20 new ordinary shares issued on 13 September 2005; and
- (xix) on 22 February 2006, 1,372,000 ordinary shares were issued, fully paid, by way of a placing at 260p per share.

(F) The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on holders of ordinary shares rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are to be paid up in cash. There are no rights of pre-emption attaching to the preference shares.

(G) By resolutions passed on 15 June 2005:

- (i) the directors were generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (as defined in the Act) other than preference shares up to an aggregate nominal amount of £2,286,826, such authority to expire on the date of the annual general meeting of the company to be held in 2006, such authority also conferring on the directors the power to make an offer or agreement which would or might require relevant securities to be allotted after the relevant authority had expired;
- (ii) the directors were generally and unconditionally authorised to exercise all the powers of the company to allot preference shares up to an aggregate nominal amount of £2,834,210, such authority to expire on the date of the annual general meeting of the company to be held in 2006, such authority also conferring on the directors the power to make an offer or agreement which would or might require preference shares to be allotted after the relevant authority had expired; and
- (iii) the directors were empowered pursuant to section 95 of the Act to allot equity securities for cash pursuant to the authority referred to at (i) above as if section 89(1) of the Act did not apply to the allotment, this power to expire on the date of the annual general meeting of the company to be held in 2006 and to be limited to the allotment of equity securities in connection with a rights issue or open offer in favour of the holders of ordinary shares and/or warrants and the allotment (otherwise than in connection with such a rights issue or open offer) of equity securities up to an aggregate nominal value of £343,000, such power including the power to make an offer or agreement which would or might require equity securities to be allotted after the power has expired.

The authority and power referred to at, respectively, (i) and (iii) above were utilised by the directors to allot the 1,372,000 ordinary shares that were issued pursuant to the placing agreement summarised in sub-paragraph (7) under "Material contracts" below and such authority and power have been reduced accordingly.

(H) The first resolution set out in the notice of the extraordinary general meeting convened for 18 April 2006 would, if passed, authorise the directors to exercise all the powers of the company to allot ordinary shares up to an aggregate nominal amount of £707,000 (comprising up to 2,828,000 new ordinary shares representing 10.7 per cent of the issued ordinary share capital at the date of this document) and would empower the directors to allot, pursuant to that authority and pursuant to the ordinary share placing and open offer, up to 2,828,000 new ordinary shares (representing 10.7 per cent of the ordinary share capital in issue at the date of this document) as if section 89(1) of the Act did not apply to the allotment, such authority and power to expire on 16 May 2006. The directors intend to exercise this authority and power to allot new ordinary shares pursuant to the ordinary share placing and open offer.

(I) The second resolution set out in the notice of the extraordinary general meeting convened for 18 April 2006 would, if passed, authorise the directors to exercise all the powers of the company to allot preference shares up to an aggregate nominal amount of £3,000,000 (comprising up to 3,000,000 new preference shares representing 35.3 per cent of the issued preference share capital at the date of this document), such authority to expire on 31 May 2006. The directors intend to exercise this authority to allot new preference shares pursuant to the preference share placing.

(J) Sections 198 to 210 inclusive of the Act make provisions regarding the disclosure of interests in shares. Where a person has a material interest in 3 per cent or more of any class of shares of the company carrying rights to vote in all circumstances at general meetings of the company (ignoring any temporary suspension of voting rights) ("relevant shares"), he has an obligation to disclose such interest to the company. A similar obligation arises where a person has any interest whatsoever in 10 per cent or more of any class of relevant shares. Where a person's notifiable interest changes, then further disclosure obligations arise.

(K) The City Code on Takeovers and Mergers (the "City Code") applies to the company. Under Rule 9 of the City Code, except with the consent of the Panel on Takeover and Mergers, when any person either (i) acquires ordinary shares which, taken together with ordinary shares already held by him and persons acting in concert with him, carry 30 per cent or more of the voting rights of the company or (ii) holds, together with persons acting in concert with him, ordinary shares which carry not less than 30 per cent but not more than 50 per cent of the voting rights of the company and acquires additional ordinary shares which increase his percentage of voting rights, then that person, together with the persons acting in concert with him, is required to make a general offer in cash for all the remaining ordinary shares of the company, at not less than the highest price paid by him, or any person acting in concert with him, for ordinary shares of the company within the preceding twelve months.

(L) Sections 428 to 430F inclusive of the Act make provisions for the compulsory purchase or sale of minority holdings of shares that have been the subject of a takeover offer (as defined in section 428 of the Act). Where, pursuant to a takeover offer, an offeror has by virtue of acceptances of that offer acquired or contracted to acquire more than 90 per cent of the shares to which the offer relates, that offeror may compulsorily acquire the remaining shares that were the subject of the offer and a holder of any of such remaining shares may require the offeror to acquire his shares, in either case on the terms of the takeover offer.

(M) No shares in the company are held in treasury or are beneficially owned by the company or any subsidiary of the company.

(N) The new ordinary shares and the new preference shares will be created under the laws of England and Wales pursuant to the first and second resolutions set out in the notice of extraordinary general meeting of the company convened for 18 April 2006 and will be issued by resolutions of the board pursuant to authorities and powers conferred upon the board by those shareholder resolutions.

**4. Memorandum and articles of association**

(A) The principal objects of the company are set out in clause 4 of its memorandum of association and are to act as and perform the functions of an investment or holding company.

(B) The articles of association of the company (the "articles") include provisions to the following effect:

*(i) Voting rights*

(a) Save as provided in sub-paragraph (i)(c) below, at any general meeting, a holder of ordinary shares is entitled, on a show of hands, if present in person or, being a corporation, represented by duly authorised representative, to one vote and, on a poll, if present in person or, being a corporation, represented by duly authorised representative, or represented by proxy, to one vote for each ordinary share held by him.

(b) At any general meeting on the date of the notice of which the dividend on the preference shares is more than six months in arrears and upon any resolution proposed at a general meeting for the winding up of the company or directly and adversely affecting any of the rights or privileges attaching to the preference shares, a holder of preference shares is entitled to vote in like manner to a holder of ordinary shares, but such holder is not otherwise entitled to vote at any general meeting.

(c) No shareholder is entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if he has been served by the directors with a restriction notice in the manner described in sub-paragraph (vii) below.

(ii) *Dividends*

(a) Out of the profits available for distribution and resolved to be distributed, holders of preference shares are entitled to a fixed cumulative preferential dividend at the rate of 9 per cent per annum on the nominal amount for the time being paid up on the preference shares held by them, payable by two equal half yearly instalments on 30 June and 31 December in respect of the half years ended on those dates.

(b) Subject to the rights of the holders of the preference shares, holders of ordinary shares are entitled to share equally with the other holders of issued ordinary shares (but as between them proportionately to the amount paid up on their respective holdings) in any dividend paid on the issued ordinary share capital of the company.

(c) The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors. Subject to the provisions of the Act, the directors may pay such interim dividends as appear to them to be justified by the profits of the company and may pay the fixed dividends payable on any shares of the company half-yearly or otherwise on fixed dates. No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Act.

(d) The directors may, with the sanction of an ordinary resolution of the company in general meeting, offer the holders of ordinary shares the right to elect to receive new ordinary shares credited as fully paid instead of cash in respect of the whole or part of any dividend.

(d) Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the company.

(iii) *Distribution of assets*

(a) On a winding up of the company or other return of assets, the holders of preference shares are entitled, out of the assets of the company available for distribution among the members of the company, to repayment of the amount paid up on their shares and to payment of any arrears of the preferential dividend thereon (but as between them proportionately to the amounts paid up on their respective holdings) in priority to any repayment of the amounts paid up on any other issued shares of the company.

(b) Subject to the rights attached to the preference shares and to any rights which may be attached to any other class of shares, any surplus assets of the company available for distribution among members on a return of assets on a winding up shall be applied in repaying to the holders of the ordinary shares the amounts paid up on such ordinary shares and, subject thereto, shall belong to and be distributed among such holders rateably according to the number of such ordinary shares held by them respectively.

(c) On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the company and any other sanction required by the Act, divide amongst the members in specie or in kind the whole or any part of the assets of the company and may, for such purpose, set such value as he deems fair upon any property to be so divided and may determine how such division shall be carried out.

(iv) *Exercise of warrant rights*

Any holder of preference shares who is also a holder of warrants is entitled to "convert" preference shares into ordinary shares in accordance with the provisions of the warrants from time to time. Subject to the provisions of the Act, a conversion of preference shares pursuant to an exercise of warrant rights shall be effected by redemption at par of the relevant preference shares with the redemption monies due by the company being set off against the subscription monies due to the company upon exercise of the relevant warrant rights.

(v) *Alteration of capital and variation of rights*

(a) When the share capital of the company is divided into different classes of shares, the rights attached to any class of shares may, subject to the provisions of the Act, be modified, abrogated or varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of sections 369, 370, 376 and 377 of the Act and the provisions of the articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy at the separate class meeting may demand a poll.

(b) The company may increase its share capital and may consolidate or subdivide its shares by ordinary resolution. Without prejudice to any rights previously conferred on the holders of any existing shares or class of shares, any shares may be issued with such rights or restrictions, whether in regard to dividend, return of capital, voting or otherwise, as the company may by ordinary resolution determine (or, in the absence of any such determination, as the directors may determine).

(c) Subject to the provisions of the Act and the articles, all unissued shares of the company are at the disposal of the directors. Subject to the provisions of the Act, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the company or the shareholders on the terms and in the manner provided for by the articles.

(d) Subject to the provisions of the Act, the company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way and, provided that such purchase is sanctioned by an extraordinary resolution passed at a separate general meeting of each class of holders of outstanding shares of the company (if any) which are capable of being converted into equity share capital of the Company, may purchase its own shares (including any redeemable shares).

(vi) *Transfer of shares*

The ordinary shares and preference shares may be transferred either through the CREST system where held in uncertificated form, or by instrument of transfer in any usual or common form duly executed and stamped. The directors may, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any share which is not a fully paid share, provided that, where the share in question is listed, such discretion shall not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis. The directors may likewise refuse to register any transfer of a share, whether fully paid or not, in favour of more than four persons jointly. The directors may also decline to recognise any instrument of transfer unless (a) the instrument of transfer is left at the registered office of the company or at the office of the registrars of the company, accompanied by the certificate(s) of the shares to which it relates, if any, and such other evidence as the directors may reasonably require to show

the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) and (b) the instrument of transfer is in respect of only one class of shares.

(vii) *Restrictions on voting, dividend and transfer rights*

If a member (or any person appearing to be interested in shares in the company held by such member) has been duly served with a notice pursuant to section 212 of the Act and is in default in supplying to the company the information thereby required within 14 days from the date of service of such notice the company may, at the discretion of the directors, serve on such member (or on such person) a notice ("a restriction notice") in respect of the shares in relation to which the default occurred ("default shares") and any other shares held at the date of the restriction notice directing that the member shall not be entitled to be present or to vote at any general meeting or class meeting of the company. Where the default shares represent at least 0.25 per cent of the issued shares of the company of the same class, the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the default shares shall be retained by the company without liability to pay interest and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that no person in default is interested in any shares subject to the transfer.

(viii) *Untraced shareholders*

(a) The company may sell at the best price reasonably obtainable any share of a member or person entitled thereto by transmission if, during a period of twelve years, at least three dividends in respect of the share in question have become payable and no cheque or warrant sent by the company in respect of that share has been encashed and no communication has been received by the company from such member or person. The company shall be obliged to account to the former member or other person for the net proceeds of sale but no trust shall be created and the company shall treat the member or other person as a creditor in respect of such proceeds.

(b) If on two consecutive occasions, cheques or warrants in payment of dividends or other moneys payable in respect of any share have been sent through the post in accordance with the provisions of the articles and have been returned undelivered or left uncashed during the periods for which the same are valid and reasonable enquiries have failed to establish any new address of the member or person entitled thereto then, until the member or other person entitled thereto shall have supplied a new address, the company need not despatch further cheques or warrants in payment of dividends or other monies payable in respect of the shares in question and such member or person may be treated for the purposes of the articles and the Act as a person of whose address the company is unaware.

(ix) *Directors*

(a) The business of the company shall be managed by the directors, who, subject to the provisions of the articles and the Act and to such directions as may be given by the company in general meeting by special resolution, may exercise all powers of the company.

(b) The number of directors shall be not less than two. There shall be no maximum number of directors. A director shall not be required to hold any shares in the capital of the company and there shall be no age limit for directors. A director who is not a member shall nevertheless be entitled to receive notice of and attend and speak at all general meetings of the company and all separate meetings of the holders of any class of shares in the capital of the company.

(c) No director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the company either with regard to his tenure of any other office or place of profit or acting in a

professional capacity for the company or as a vendor, purchaser or otherwise. Subject to the provisions of the Act, no such contract, arrangement, transaction or proposal entered into by or on behalf of the company in which any director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the company for any profit or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, but such director shall declare the nature of his interest in accordance with the Act.

(d) Save as provided in the articles, a director shall not vote in respect of any contract, arrangement, transaction or any other proposal whatsoever in which he has an interest which (together with any interests of any person connected with him within the meaning of section 346 of the Act) is a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

(e) A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely

- (1) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the company or any of its subsidiary undertakings;
- (2) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (3) any proposal concerning an offer of shares in or debentures or other securities of or by the company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be interested as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;
- (4) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he or any person connected with him does not hold an interest (within the meaning of Part VI of the Act) in one per cent or more of any class of the equity share capital of, or of the voting rights available to members of, the relevant company;
- (5) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a pension, superannuation or similar fund, trust or scheme which has been approved by HM Revenue & Customs or retirement, death or disability benefit scheme under which he may benefit and which does not accord to any director as such any privilege or advantage not generally accorded to the employees to whom such scheme, trust or fund relates;
- (6) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of any scheme for enabling employees (including full-time executive directors of the company and/or any subsidiary undertaking) to acquire shares of the company or any arrangement for the benefit of employees of the company or any of its subsidiary undertakings under which the director benefits in a similar manner to employees and which does not accord to any director as such any privilege or advantage not generally accorded to the employees to whom such scheme or arrangement relates; and
- (7) any proposal concerning any insurance which the company is to purchase and/or maintain for the benefit of directors or for the benefit of persons who include directors.

(f) If any question shall arise at any meeting as to the materiality of an interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the director concerned have not been fairly disclosed.

(g) The directors shall be paid out of the funds of the company by way of fees for their services as directors such sums (if any) as the directors may from time to time determine (not exceeding in the aggregate such annual sum as the company may by ordinary resolution determine). Such remuneration shall be divided between the directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

(h) The directors shall also be repaid all reasonable travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the company or otherwise in connection with the business of the company.

(i) Subject to the provisions of the Act, the directors may from time to time appoint one or more of their body to the office of managing director or to hold such other executive office as they may decide for such period and on such terms as they think fit, and, subject to the terms of any service contract entered into in any particular case and without prejudice to any claim for damages that any director may have for breach of any such service contract, may revoke such appointment. The salary or remuneration of any managing director or other such executive director shall, subject as provided in any contract, be such as the directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits.

(j) The directors may entrust to and confer upon a managing director or any other executive director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.

(k) Any director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the company, or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the directors may determine.

(l) A director may be or continue as or become a director or other officer, servant or member of, or otherwise interested in, any company promoted by the company or in which the company may be interested as shareholder or otherwise, and no such director shall be accountable to the company for any remuneration or other benefits received or receivable by him as a director or other officer, servant or member of, or from his interest in, such other company. Subject to the provisions of the Act, a director may hold any other office or place of profit under the company, except that of auditor, in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the company, and in any such case on such terms as to remuneration and otherwise as the directors may arrange. Such remuneration shall be in addition to any remuneration otherwise provided by the articles.

(m) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the company or any company in which the company is interested, such proposals may be divided and considered in relation to each director separately and in such cases each of the directors concerned (if not debarred as provided in sub-paragraph (ix)(d) above) shall be entitled to vote



(and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(n) Each director shall have the power at any time to appoint as an alternate director either (1) another director or (2) any other person approved for that purpose by a resolution of the directors, and, at any time, to terminate such appointment.

(o) At each annual general meeting of the company, one-third of the directors (excluding any directors who have been appointed to executive office) shall retire from office. The directors to retire will be those who have been longest in office, or in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.

(p) Without prejudice to the provisions of the articles, the directors may exercise all the powers of the company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers, employees or auditors of the company, or of any other body (whether or not incorporated) which is or was its parent undertaking or subsidiary undertaking or another subsidiary undertaking of any such parent undertaking (together "group companies") or otherwise associated with the company or any group company or in which the company or any such other group company has any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, or who are or were at any time trustees of, or directors of trustees of, any pension, superannuation or similar fund, employees' trust or scheme or any employees' share scheme or other scheme or arrangement in which any of the company or any such other body are interested, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liability suffered or incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the company or any such other body, fund, trust, scheme or arrangement.

(q) The directors may exercise all the powers of the company to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowance or benefits to (or to any person in respect of) any persons who are or have at any time been directors of or employed by or in the service of the company or of any subsidiary undertaking or parent undertaking of the company or to the spouses (or civil partners), widows or widowers, children, other relatives and dependants of any such persons and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of any such persons.

(x) *Borrowing powers*

(a) The directors may, save as the articles otherwise provide, exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, or any part thereof, and, subject to the provisions of the Act and the articles, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the company or of any third party.

(b) The directors shall restrict the borrowings of the company and exercise all voting and other rights or powers of control exercisable by the company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the company and its subsidiary undertakings for the time being (in this paragraph, "the group") and for the time being owing to persons outside the group shall not, without the previous sanction of an ordinary resolution of the company in general meeting, exceed five times the aggregate of:

(1) the amount paid up on the issued share capital of the company; and

- (2) the total of the capital and revenue reserves of the group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account).

all as shown in the latest audited consolidated balance sheet of the group but after such adjustments and deductions as are specified in the articles.

(xi) *General meetings*

(a) The company shall in each year hold a general meeting as its annual general meeting. Not more than fifteen months shall elapse between the date of one annual general meeting of the company and that of the next. The annual general meeting shall be held at such time and place as the directors shall appoint. The directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition as is provided by the Act.

(b) An annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than twenty-one clear days' notice in writing, and a meeting of the company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by not less than fourteen clear days' notice in writing. The notice shall specify the place, the day and the time of meeting and, in case of special business, the general nature of that business. The notice shall also be given to the directors and the auditors.

(c) No business shall be transacted at any general meeting unless a quorum is present. Except as provided in the articles, two members present in person or by proxy and entitled to vote shall be a quorum. If within half an hour (or such shorter (being not less than five minutes) or longer time as the chairman may decide) from the time appointed for the meeting a quorum is not present, the meeting, if convened by or upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to such time (being not less than fourteen days nor more than twenty-eight days later) and place as the chairman shall appoint. If at such adjourned meeting a quorum is not present within five minutes from the time appointed therefor, the member or members present in person or by proxy and entitled to vote shall have power to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place. The company shall give not less than seven clear days' notice of any meeting adjourned for want of a quorum.

(C) There are no restrictions in the memorandum or articles of association of the company on the rights of non UK resident shareholders to hold, exercise voting rights attaching to or receive dividends and distributions in respect of shares in the company. However, under the articles of association, no shareholder is entitled to receive notices from the company, including notices of general meetings, unless he has given an address in the UK to the company to which such notices may be sent.

**5. Subsidiaries**

(A) The significant subsidiaries of the company are as listed below (such subsidiaries are incorporated in England and Wales unless otherwise shown):

<i>Name</i>	<i>Class of shares</i>	<i>Percentage ownership</i>
Kutai Plantations Limited	Ordinary	100
Makassar (Jersey)	Ordinary	100
	Preferred	100
MP	Ordinary	100
	Deferred	100
	Preference	40
REA Kaltim (Indonesia)	Ordinary	100
R.E.A. Services Limited	Ordinary	100
PT Sasana Yudha Bakti (Indonesia)	Ordinary	95

The percentage of voting rights held is in each case equal to the percentage of ordinary shares owned.

(B) Kutai Plantations Limited, Makassar and MP act as sub-holding companies. REA Kaltim and PT Sasana Yudha Bakti are engaged in growing oil palms in East Kalimantan. R.E.A. Services Limited provides administrative services to members of the group and other companies.

**6. Principal investments**

(A) The principal investments made by the group during the three years ended 31 December 2004 and made or put in hand in the period from 1 January 2005 to-date (other than capital expenditure in the development of the group's East Kalimantan operations as described under "Scope of operations" in Part V above) were the following:

- (i) in 2002, acquisition of the whole of the issued ordinary share capital and some 40 per cent of the issued preference capital of MP for an aggregate consideration comprising the issue of \$85,440 nominal of 5 per cent unsecured loan notes 2004 of the company and 300,077 ordinary shares, credited as fully paid;
- (ii) in 2002, subscription of 11,694 Makassar ordinary shares for an aggregate cash consideration of \$5.6 million (equivalent at 31 December 2002 to £3.5 million);
- (iii) in 2003, subscription of 14,249 Makassar ordinary shares for an aggregate cash consideration of \$6.8 million (equivalent at 31 December 2003 to £3.8 million); and
- (iv) in 2006, acquisition of 4,242 Makassar ordinary shares and 2 Makassar founder shares for an aggregate consideration comprising the issue of \$19 million nominal of dollar notes.

(B) Save for capital expenditure in the development of the group's East Kalimantan operations as described under "Scope of operations" in Part V above, the management of the group has made no firm commitment in respect of any significant future investment.

**7. Significant shareholders**

(A) As at 21 March 2006 (being the latest practicable date prior to the publication of this document), the company had been notified pursuant to the Act that the following persons had directly or indirectly a notifiable interest in the issued ordinary share capital of the company (being an interest such as is described in paragraph (J) under "Share capital" above):

	<i>Number of ordinary shares</i>	<i>Percentage of ordinary share capital</i>
Emba	9,468,781	35.7
Alcatel Bell Pensioenfonds VZW	3,713,000	14.0
Prudential plc and certain of its subsidiary companies	3,086,187	11.6

(B) In so far as the company is aware, other than as disclosed in paragraph (A) above, no person has directly or indirectly an interest in the company's capital which is notifiable under the Act (being an interest such as is described in paragraph (J) under "Share capital" above).

(C) Ordinary shares and preference shares held by major shareholders of the company have the same voting rights as ordinary shares and preference shares held by other shareholders of the company.

(D) In so far as is known to the company and other than as disclosed in paragraph (E) below, there are no persons who, directly or indirectly, could exercise control over the company and no arrangements the operation of which could result in a change of control in the company at a future date.

(E) In addition to its interest in 9,468,781 ordinary shares as referred to in paragraph (A) above, Emba owns 41,420 warrants (representing 2.7 per cent of the warrants in

issue). Pursuant to deeds dated 24 November 1998 and 10 April 2001, Emba 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 in the listed company. On the basis of that agreement, the directors are satisfied that the group is capable of carrying on business independently of Emba and that all transactions and relationships between the group and Emba are, and will be, at arm's length and on normal commercial terms.

(F) Mr R M Robinow (the chairman of the company) and persons connected with him (within the meaning of section 346 of the Act) are interested in 45 per cent of the issued ordinary share capital of Emba.

## 8. UK taxation

### (A) General

**The comments below are of a general nature and are based upon the company's understanding of current UK tax laws and the practice of Her Majesty's Revenue and Customs ("HMRC") as of the date hereof. They do not purport to be a complete analysis of all tax considerations, relate only to the position of persons who hold shares or warrants as an investment and are the absolute beneficial owners of such shares and may not apply to certain classes of persons such as dealers, persons who have acquired their ordinary or preference shares by reason of their employment or persons connected with the company for relevant tax purposes. Save as specifically mentioned, the comments apply only to holders of shares or warrants who are resident and (if individuals) ordinarily resident in the UK for tax purposes. Certain categories of person are not liable to stamp duty or stamp duty reserve tax and others, although not primarily liable for such duty or tax, may be required to notify and account for it. Prospective holders of ordinary shares or preference shares who are in any doubt whatsoever as to their taxation position or who may be subject to tax in a jurisdiction other than the UK should consult their own professional adviser.**

(B) Capital gains implications of subscribing new ordinary shares pursuant to the open offer

#### *(i) Subscription by holders of existing ordinary shares*

For the purposes of UK taxation of capital gains (or for corporate shareholders corporation tax on chargeable gains), the issue of new ordinary shares pursuant to the open offer should, to the extent of qualifying holders' pro rata entitlements in respect of holdings of existing ordinary shares, constitute a reorganisation of the existing ordinary shares. Accordingly, new ordinary shares subscribed by a qualifying holder of existing ordinary shares pursuant to the open offer up to that holder's pro rata entitlement to new ordinary shares in respect of holdings of existing ordinary shares should normally constitute an addition to that holder's then holding of existing ordinary shares so that the holdings of new ordinary shares and of existing ordinary shares should be treated as the same asset (the "new holding") acquired on the same date or dates as the date or dates upon which the holder's holding of existing ordinary shares was acquired or deemed acquired (save that, where a non-corporate shareholder's holding of existing ordinary shares is treated as consisting of more than one holding for tax purposes, the new ordinary shares acquired will be attributed pro rata to those existing holdings).

The aggregate subscription price for the new ordinary shares subscribed by the qualifying holder will be aggregated with the base cost of that holder's holding of existing ordinary shares for the purposes of computing the gain (or loss) on the subsequent disposal of the new holding or any part of it (although indexation allowance, where available (see below), will run as respects the amount subscribed for the new ordinary shares comprised in such new holding only from the date on which the qualifying holder gave or became liable to give consideration for the new ordinary shares).

With effect from 6 April 1998, indexation allowance is only available for the purposes of corporation tax. For the purposes of capital gains tax, all gains on or after 6 April 1998 are potentially subject to taper relief. However, for the purposes of capital gains

tax, indexation allowance should be available when calculating a chargeable gain (but not an allowable loss) on a disposal or part disposal of the new holding in respect of the ownership of the existing ordinary shares from which that holding derives for the period of ownership (and expenditure incurred) up to 5 April 1998. Thereafter, taper relief may be available to reduce the amount of the chargeable gain realised on a disposal or part disposal of the new holding depending upon the number of years for which that holding has been held at the date of disposal (taking into account the period of ownership of existing ordinary shares from which it derives).

*(ii) Subscription of new ordinary shares by warrant holders*

New ordinary shares subscribed by a qualifying holder under the open offer pursuant to that qualifying holders' pro rata entitlements in respect of holdings of warrants should be treated as acquired as a separate holding at the open offer price of 260p per share and, for the purposes of taper relief (see above), on the date of subscription.

Also, if and to the extent that the market value of such new ordinary shares on the date of issue is in excess of their subscription price, the gain element may fall to be treated as a capital sum derived from the underlying warrants, which may, depending on the qualifying holder's individual circumstances, give rise to a chargeable gain or allowable loss in respect of the underlying warrants.

**(C) Capital gains implications of proposed amendment of warrant rights**

For the purposes of UK taxation of capital gains (or for corporate warrant holders corporation tax on chargeable gains), the proposed amendment of warrant rights should constitute a reorganisation of the warrants and should not be treated as giving rise to a disposal of, or of any interest in, the warrants.

**(D) Taxation of dividends**

*(i) General*

Under current UK tax legislation, no tax should be withheld at source from dividend payments by the company.

*(ii) Taxation of dividends paid to shareholders resident in the UK*

Non-corporate shareholders resident in the UK who receive a dividend paid by the company should generally be entitled to a tax credit in respect of the dividend which they may offset against their total income tax liability. The rate of the tax credit is equal to 10 per cent of the sum of the dividend and the tax credit. Shareholders subject to tax at the lower or basic rates only should be subject to tax on such dividend at the rate applicable to investment income received by such shareholders. This is currently 10 per cent. Accordingly, lower and basic rate taxpayers should have no further liability to tax on dividends received. Higher rate taxpayers should be liable to tax on the sum of the dividend plus the tax credit at the rate applicable to investment income received by such taxpayers (currently 32.5 per cent) against which liability they can offset the 10 per cent tax credit.

A corporate shareholder resident in the UK (other than a person who is regarded as a dealer in securities) should not be liable to UK corporation tax on any dividend received from the company.

*(iii) Taxation of dividends paid to shareholders resident outside the UK*

Shareholders resident outside the UK may be entitled to claim payment from HMRC in respect of part of the tax credit attached to the dividends to which they are entitled, depending on the provisions of any relevant double taxation convention or agreement. The amount paid will not normally be more than 1 per cent of the dividend to which the applicable tax credit relates. Such shareholders should consult their own tax advisers as to entitlement and procedures as well as to taxation in their own jurisdiction.

**(E) Stamp duty and stamp duty reserve tax**

*(i) New ordinary shares and new preference shares*

Subscription of new ordinary shares pursuant to the ordinary share placing and open offer and subscription of new preference shares pursuant to the preference share

placing will not normally give rise to a liability to stamp duty or stamp duty reserve tax ("SDRT").

*(ii) Transfer of ordinary shares or preference shares in certificated form*

An agreement to transfer ordinary shares or preference shares held in certificated form will normally give rise to a liability to SDRT, generally at the rate of ½ per cent of the amount or value of the consideration given, although if the agreement to transfer such ordinary shares is completed by a duly stamped transfer to the transferee the stamp duty payable in respect of such transfer (generally at the rate of 50p per £100 (or part thereof) of the consideration given rounded up to the nearest multiple of £5) will extinguish the liability to SDRT and permit a refund of any SDRT already paid to be claimed. Stamp duty and SDRT are customarily paid by the purchaser of the shares being transferred, although where such a purchase is effected through a stockbroker or other financial intermediary, that person should normally account for the liability to SDRT and should indicate that this has been done in any contract note issued to a purchaser.

*(iii) Transfer of ordinary shares or preference shares into or out of CREST without change in beneficial ownership*

Where ordinary shares or preference shares are transferred into CREST without change in beneficial ownership or by a member of CREST to the beneficial owner (on whose behalf it has held them as nominee) no stamp duty or SDRT will normally be payable.

*(iv) Transfer of ordinary shares or preference shares within CREST or on dematerialisation with change of beneficial ownership*

Where a change in the beneficial ownership of ordinary shares or preference shares held in, or being transferred into, uncertificated form occurs and such change is for a consideration in money or money's worth (whether the transferee will hold such new ordinary shares in certificated or uncertificated form) a liability to SDRT at the rate of ½ per cent of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

*(v) Issue or transfer of ordinary shares or preference shares to a clearance service provider or a depositary receipt issuer*

Where ordinary shares or preference shares are issued or transferred to a provider of clearance services or issuer of depositary receipts (or their nominees or agents), stamp duty or SDRT, as appropriate, may be payable at the rate of 1.5 per cent (rounded up in the case of stamp duty to the nearest multiple of £5) of the amount or value of the applicable consideration or the value of the shares. Where stamp duty or SDRT is so payable, such stamp duty or SDRT may be charged by the clearance service provider or depositary receipt issuer to the shareholder to whom the shares would otherwise have been issued or transferred. A provider of clearance services may elect, under certain conditions, for the normal rates of SDRT to apply to a transfer of shares into, and to transactions within, the clearance service system that it provides in which case the higher rate charge of 1.5 per cent will not apply to an issue or transfer of shares into that system.

**9. Material contracts**

The following is a summary of the principal contents of all the contracts, not being contracts entered into in the ordinary course of business, that have been entered into by a member of the group (i) within the two years immediately preceding the date of publication of this document and that are, or may be, material or (ii) under which any member of the group has any obligation or entitlement which is or may be material to the group as at the date of publication of this document:

- (1) dated 5 July 2004 between (i) the company and (ii) Canaccord Capital (Europe) Limited ("Canaccord"), being a placing agreement, whereby Canaccord, as agent of the company, arranged placees to subscribe 1,000,000 preference shares and to acquire a further 99,345 preference shares held by the company as treasury shares in both cases in cash at a price of £1 per share for a fee of £45,000 (plus VAT);
- (2) dated 7 October 2004 between (i) the company and (ii) Canaccord Capital (Europe) Limited ("Canaccord"), being a letter of agreement, whereby

Canaccord, as agent of the company, arranged placees to subscribe 772,965 preference shares in cash at a price of £1 per share for a for a commission of 2¼ per cent of the gross proceeds of the placing (plus VAT) and the company gave certain warranties and indemnities to Canaccord being warranties and indemnities customary in connection with a placing of shares of a listed company;

- (3) dated 7 September 2005 between (i) PT Bank Rabobank International Indonesia, PT ANZ Panin Bank and PT Bank Niaga Tbk as Lenders (the "lenders"), (ii) REA Kaltim as Borrower, (iii) PT Bank Rabobank International Indonesia as Agent and (iv) Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. as Singapore Accounts Bank, whereby:
  - (a) the lenders agreed to provide a facility comprising tranche A in the amount of \$41 million and tranche B in the amount of \$4 million to REA Kaltim, tranche A being available for draw down for a period of six months from the date of the agreement (and since drawn down) and tranche B being available for draw down at any time up until 7 September 2009;
  - (b) REA Kaltim agreed to pay interest on the aggregate amount of the facility drawn down at a floating rate equal to 4 per cent per annum over Singapore Inter Bank Offered Rate from time to time and commitment fees to the lenders on undrawn balances;
  - (c) REA Kaltim agreed to repay the aggregate facility in monthly instalments commencing April 2006 as follows: April 2006 to March 2007 - 12 instalments of \$416,667, April 2007 to March 2008 - 12 instalments of \$500,000, April 2008 to March 2009 - 12 instalments of \$583,333, April 2009 to March 2010 - 12 instalments of \$1,000,000 and April 2010 to August 2010 - 6 instalments of \$2,500,000 (or, if earlier, following demand from the Agent in the event of an event of default);
  - (d) REA Kaltim agreed to provide or procure the provision to the lenders of security for the facilities principally comprising charges over substantially the whole of the assets and undertaking of REA Kaltim and an unsecured guarantee from the company; and
  - (e) REA Kaltim gave various representations, warranties and undertakings to the lenders, including certain financial covenants;
- (4) dated 13 September 2005 between (i) the company and (ii) former holders of the 4 per cent convertible loan stock 2012 of the company ("convertible stock"), being a scheme of reorganisation, whereby holders of the convertible stock exchanged their holdings of convertible stock for ordinary shares and dollar notes upon terms that they then received, in respect of the resultant ordinary shares, a capitalisation issue of further ordinary shares resulting in an effective overall basis of exchange of 164 ordinary shares and \$163 nominal of dollar notes for every £100 nominal of convertible stock held;
- (5) dated 23 January 2006 between (i) Mr M E Zukerman, the Zukerman Family Trust, Bodley Investment Company, M.E. Zukerman & Co. Incorporated and M. E. Zukerman Investments Limited (the "Zukerman parties") and (ii) REA, MP, Makassar, REA Kaltim, and REA's directors, Mr L E C Letts, Mr J C Oakley and Mr R M Robinow (the "REA parties"), being a deed of settlement, whereby all outstanding litigation claims made or threatened by the Zukerman parties against the REA parties and all outstanding litigation claims threatened by the REA parties against the Zukerman parties were settled and REA acquired the ordinary shares in Makassar owned by certain of the Zukerman parties for a consideration comprising the issue of \$19 million of dollar notes;
- (6) dated 23 January 2006 between (i) Mr M E Zukerman and the Zukerman Family Trust (together with their permitted assignees, the "Zukerman dollar noteholders") being the allottees of the \$19 million nominal of dollar notes issued pursuant to the settlement agreement (the "Zukerman dollar notes") and (ii) REA, whereby it was agreed that:

- (a) subject to certain limitations, REA has the right to purchase from the Zukerman dollar noteholders at any time and from time to time some or all of their holdings of Zukerman dollar notes (the "call rights") at par plus interest accrued up to the date of completion of such purchase;
  - (b) under certain circumstances, the Zukerman dollar noteholders have the right to require REA to purchase some or all of the Zukerman dollar notes (the "put rights") at par plus interest accrued up to the date of completion of such purchase;
  - (c) the limitations upon the exercise by REA of the call rights are that the nominal amount of the Zukerman dollar notes (as reduced by any previous exercises of the call rights) shall not by such exercise be reduced in nominal amount to below 25 per cent of the nominal amount of the aggregate of all then outstanding dollar notes and any further notes constituted by deed supplemental to the trust deed of 12 September 2005 constituting the dollar notes (the "trust deed") unless the entire outstanding holding of Zukerman dollar notes is to be acquired by REA;
  - (d) the circumstances under which the Zukerman dollar noteholders may exercise the put rights are occurrences of events that supplement the events of default contained in the trust deed; the principal of such supplemental events comprise (I) material disposals of assets by the group, (II) any 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 REA and (III) if UK withholding tax becomes payable in respect of any principal or interest payments on the Zukerman dollar notes, REA not paying such additional amounts as will result in the net amounts receivable by the Zukerman dollar noteholders remaining as they would have been had no such withholding tax been payable; and
  - (e) following any transfer of Zukerman dollar notes by a Zukerman dollar noteholder to Mr Zukerman's wife or children ("permitted assignees") the permitted assignee will enjoy the benefit of the put rights (and be bound to comply with an exercise of the call rights), subject to the execution by the permitted assignee of a deed of adherence to the agreement; the put rights are also exercisable by any bank or other financial institution taking a charge over Zukerman dollar notes by way of security for obligations of a Zukerman dollar noteholder;
- (7) dated 14 February 2006 between (i) the company and (ii) Mirabaud, being a placing agreement made by way of letter dated 10 February 2006 and countersigned on 14 February 2006, whereby Mirabaud, as agent of the company, arranged placees to subscribe 1,372,000 ordinary shares in cash at a price of 260p per share for a commission of 3¼ per cent of the gross proceeds of the placing (plus VAT) and the company gave certain warranties and indemnities to Mirabaud being warranties and indemnities customary in connection with a placing of shares of a listed company;
  - (8) dated 22 March 2006 between (i) Emba and (ii) the company, being a letter of undertaking, whereby Emba has undertaken (a) subject to the conditions of the open offer being duly satisfied, to take up its entitlements to new ordinary shares under the open offer to the extent of 414,799 new ordinary shares and not to take up the balance of such entitlements in respect of 60,711 new ordinary shares and (b) to vote in favour of the resolutions to be proposed at the meeting of warrant holders and the extraordinary general meeting of the company convened for 18 April 2006 in respect of the warrants and ordinary shares owned by it;
  - (9) dated 22 March 2006 between (i) the company and (ii) Mirabaud, being a placing agreement made by way of letter, whereby:
    - (a) Mirabaud, as agent of the company, has agreed to use all reasonable endeavours to procure placees to subscribe up to 2,413,000 new ordinary shares in cash at a price of 260p per share (of which up to 1,485,669 shares will be placed on a firm basis and the balance that are placed up to the total of 2,413,000 shares will be subject to claw-back);



- (b) the company undertook to Mirabaud that the company would make the open offer;
- (c) the company gave certain warranties and indemnities to Mirabaud being warranties and indemnities customary in connection with a placing of shares of a listed company; and
- (d) the company agreed to pay Mirabaud a commission of 3¼ per cent of the gross proceeds of the new ordinary shares subscribed by the placees (plus VAT) and to bear all expenses of and incidental to the ordinary share placing and open offer;

the agreement is conditional upon, *inter alia*, admission of the new ordinary shares to the Official List and to trading on the London Stock Exchange's market for listed securities ("admission") becoming effective by not later than 9.30 am on 16 May 2006; the agreement contains provisions for its termination by Mirabaud at any time up to admission under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new ordinary shares or to prejudice the success of the ordinary share placing; and

- (10) dated 22 March 2006 between (i) the company and (ii) Mirabaud, being a placing agreement made by way of letter, whereby:
  - (a) Mirabaud, as agent of the company, has agreed to use all reasonable endeavours to procure, on a firm basis, placees to subscribe up to 3,000,000 new preference shares in cash at a price of 105p per share;
  - (b) the company gave certain warranties and indemnities to Mirabaud being warranties and indemnities customary in connection with a placing of shares of a listed company; and
  - (c) the company agreed to pay Mirabaud a commission of 2½ per cent of the gross proceeds of the new preference shares subscribed by the placees (plus VAT) and to bear all expenses of and incidental to the preference share placing;

the agreement is conditional upon, *inter alia*, the proposed reduction in the capital of the company becoming unconditional (itself conditional upon, *inter alia*, the ordinary share placing and open offer becoming unconditional) and upon admission of the new preference shares to the Official List and to trading on the London Stock Exchange's market for listed securities ("admission") becoming effective by not later than 9.30 am on 31 May 2006; the agreement contains provisions for its termination by Mirabaud at any time up to admission under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new preference shares or to prejudice the success of the preference share placing.

#### 10. Miscellaneous (A) No significant change in financial or trading position

There has been no significant change in the financial or trading position of the group since 30 June 2005, being the end of the period covered by the published financial statements contained in the interim report of the company for the six months ended 30 June 2005 which is incorporated by reference as detailed under "Referenced information" below, save that:

- (i) pursuant to the contract summarised in sub-paragraph (3) under "Material contracts" above, REA Kaltim arranged new loan facilities totalling \$45 million with a consortium of three banks; an immediate initial drawdown of \$38 million of the facilities was made and was applied by REA Kaltim principally in repaying indebtedness (including intra group indebtedness of some \$9 million); further drawdowns totalling \$3 million have been made more recently and have been used to augment REA Kaltim's working capital resources;

- (ii) pursuant to the contract summarised in sub-paragraph (4) under "Material contracts" above, £3,050,497 nominal of the former 4 per cent convertible loan stock 2012 of the company was converted into \$4,972,281 nominal of dollar notes and 610,074 fully paid ordinary shares and a further 4,392,513 ordinary shares were issued, credited as fully paid, by way of capitalisation of reserves;
- (iii) pursuant to the settlement agreement, the company acquired all of the issued shares of Makassar formerly owned by the MEZ group for a consideration comprising of the issue of \$19 million of dollar notes and the group paid \$6 million in cash to the MEZ group in settlement of various claims; such \$6 million is some \$2.3 million in excess of the aggregate amount provided in respect of the relative claims in the consolidated balance sheet of the company at 30 June 2005 and will, therefore, result in provision for expenditure of that amount in the six months ended 31 December 2005; and
- (iv) pursuant to the contract summarised in sub-paragraph (7) under "Material contracts" above, 1,372,000 ordinary shares were issued fully paid for cash at a price of 260p per share raising £3.44 million net of expenses.

(B) Related party transactions

During the three years ended 31 Decembers 2004, payments were made to companies in which certain directors were interested in respect of those directors' services as directors. The directors concerned and the amounts so paid in respect of each of them were as follows:

	2002 £'000	2003 £'000	2004 £'000
R M Robinow	169	225	246
J M Green-Armytage	1	7	13
L E C Letts	9	7	13
C L Lim	-	-	13

In the period from 1 January 2005 to the date of publication of this document, payments continued to the same companies in respect of the same directors' services at the same annual rate as was applicable in respect of 2004 (as set out above).

During the two years ended 31 December 2003, Emba provided on demand unsecured loans to the group of which the closing balance at 31 December 2002 was £290,000. Such loans were fully repaid during 2003.

Immediately prior to implementation of the reorganisation of the former 4 per cent convertible loan stock 2012 of the company (the "convertible stock") pursuant to the scheme of reorganisation summarised in sub-paragraph (4) under "Material contracts" above, Emba held £1,380,980 of the convertible stock (representing 45.3 per cent of the outstanding convertible stock). Accordingly, and to the extent of that holding, Emba and Mr Robinow (by virtue of his interest in Emba as detailed in paragraph (F) under "Significant shareholders" above) were interested in such scheme of reorganisation.

(C) Litigation

Save for the New York proceedings instituted by the MEZ group against the company and two of its directors, as described under "Background" in Part III above, and the further threatened litigation by the MEZ group against the company, MP and those three directors of the company who are also directors of Makassar and by the group against the MEZ group, also as described under "Background" in Part III above, which litigation and threatened litigation were settled on 21 January 2006 pursuant to the settlement agreement, there are no, nor have there been any, governmental, legal or arbitration proceedings which may have or have had, during the twelve months preceding the date of this document, a significant effect on the financial position or profitability of the company or the group nor is the company aware of any such proceedings pending or threatened.

(D) Patents, licences, contracts and processes

The group's financing is materially dependent upon contracts governing existing banking arrangements and the dollar notes (as both described under "Capital resources" in Part VI above) but the business and profitability of the group are not

otherwise materially dependent upon any patents or licences, industrial, financial or commercial contracts or new manufacturing processes.

(E) Research and development

The group does not undertake significant research and development activities, did not operate research and development policies for the three financial years ended 31 December 2004 and has not done so subsequently to-date.

(F) Employee involvement in capital of the company

Save as respects the option to subscribe ordinary shares granted to Mr J C Oakley, as detailed under "Share capital" above, there are no arrangements for involving group employees in the capital of the company.

(G) Capital under option

Apart from capital of the company the subject of exercise rights attaching to the warrants and of the option granted to Mr J C Oakley, both as detailed under "Share capital" above, no capital of any member of the group is under option or agreed, conditionally or unconditionally, to be put under option.

(H) Takeover offers

Within the period from 1 January 2005 to the date of this document, there has been no public takeover offer for the ordinary shares of the company.

(I) Expenses

The costs and expenses of and incidental to the proposals, including commissions payable in respect of the ordinary share placing and the preference share placing and the costs involved in the preparation and publication of this document, are estimated (on the assumption that 2,413,000 new ordinary shares will be issued pursuant to the ordinary share placing) to amount in total to £625,000.

(J) Persons involved in the issue

Save for Mr R M Robinow who by virtue of his interest in Emba (as detailed under "Significant shareholders" above) has an interest in the open offer, no person involved in the proposed issues of new ordinary shares and new preference shares has an interest in those issues that is material to the issues.

(K) Auditors, audit reports and audited information

The statutory accounts in respect of the year ended 31 December 2002 were audited by Deloitte & Touche, chartered accountants and registered auditors, of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. The statutory accounts in respect of the two financial years ended 31 December 2004 were audited by Deloitte & Touche LLP, chartered accountants and registered auditors, of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. No statement was made by Deloitte & Touche on their resignation as auditors of any matter which they believed should be drawn to the attention of members and creditors of the company.

The statutory accounts for each of the three years ended 31 December 2004 have been delivered to the registrar of companies.

Save for the information incorporated by reference under "Historical financial information" in Part VI above, no information contained in this document has been audited.

(L) Registrars

The registrars of the company are Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

(M) Third party information

The company confirms that the information included in this document that is expressed to have been sourced from Oil World (as referred to under "Business of the

group" in Part I, "Context of the proposals" in Part III and "Sales" in Part V) has been accurately reproduced. So far as the company is aware and has been able to ascertain from information published by Oil World, no facts have been omitted that would render the reproduced information inaccurate or misleading.

(N) Consent

Deloitte Corporate Finance has given and has not withdrawn its written consent to the references in this document to its name in the form and context in which these appear.

**11. Referenced information**

This document incorporates by reference the following:

- (i) the auditors' report, financial statements, accounting policies and notes on pages 26 to 48 of the annual report of the company for the financial year ended 31 December 2002 (as referenced under "Historical financial information" in Part VI on page 41 above);
- (ii) the auditors' report, financial statements, accounting policies and notes on pages 31 to 53 of the annual report of the company for the financial year ended 31 December 2003 (as referenced under "Historical financial information" in Part VI on page 41 above);
- (iii) the auditors' report, financial statements, accounting policies and notes on pages 34 to 56 of the annual report of the company for the financial year ended 31 December 2004 (as referenced under "Historical financial information" in Part VI on page 41 above); and
- (iv) the consolidated financial statements, accounting policies and notes to the consolidated financials statements on pages 6 to 18 of the interim report of the company for the six months ended 30 June 2005 (as referenced under "Interim financial information" in Part VI commencing on page 42 above)

The annual reports of the company for the three financial years ended 31 December 2004 and the interim report of the company for the six months ended 30 June 2005 may be inspected as described under "Documents available for inspection" below and will also be available for downloading from the company's web site at "www.rea.co.uk" throughout the period that they are available for inspection.

**12. Documents available for inspection**

Copies of this document and the following documents are available for inspection during normal business hours on any weekday (Saturdays and public holidays excluded) at the London office of the company's solicitors, Ashurst, at Broadwalk House, 5 Appold Street, London EC2A 2HA until such date as the ordinary share placing and open offer and the preference share placing have all become unconditional or lapsed:

- (i) the memorandum and articles of association of the company;
- (ii) the annual reports of the company for the three financial years ended 31 December 2004;
- (iii) the interim report of the company for the six months ended 30 June 2005;
- (iv) the instruments constituting the warrants and the dollar notes;
- (v) the deed dated 22 May 2005 constituting the share option granted to Mr J C Oakley as referred to in paragraph (A) under "Directors' interests" in Part VII above;
- (vi) the deeds executed by Emba referred to in paragraph (E) under "Significant shareholders" above;
- (vii) the material contracts referred to under "Material contracts" above other than the contract referred to at sub-paragraph (4) (being a contract that has not been reduced to writing but that is on the terms set forth in a notice of meeting of holders of the former 4 per cent convertible loan stock 2012 of the company that forms part of a circular to shareholders and others dated 17 August 2005 a copy of which is available for inspection as provided in sub-paragraph (viii) below) and the contract referred to at sub-paragraph (5) (which is not being made available for inspection because it includes an undertaking that its terms

will be kept confidential save to the extent required by law or the rules of the Financial Services Authority);

(viii) the circular to holders of ordinary shares, warrants and 4 per cent convertible loan stock 2012 (and for information only to holders of preference shares) dated 17 August 2005; and

(ix) the written consent referred to in paragraph (N) under "Miscellaneous" above.

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## DEFINITIONS

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Unless the context otherwise requires, the following definitions apply throughout this document:

"Act"	the Companies Act 1985 (as amended)
"application form"	the form upon which a qualifying holder may apply for new ordinary shares pursuant to the open offer
"board" or "directors"	the directors of the company
"Capita Registrars"	a trading division of Capita IRG Plc
"capital employed"	share capital and consolidated reserves (taking the oil palm plantations at estimated fair value) plus minority interests
"company" or "REA "	R.E.A. Holdings plc
"Combined Code"	the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003
"CPO"	crude palm oil
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo Limited is the operator
"Deloitte Corporate Finance"	Deloitte & Touche LLP acting through its corporate finance division
"dollar notes"	the 7.5 per cent dollar notes 2012/14 of the company constituted by a trust deed dated 12 September 2005 and made between the company and The Law Debenture Trust Corporation p.l.c.
"East Kalimantan"	the province of East Kalimantan in Indonesia (being part of the Island of Borneo) where the group's oil palm operations are located
"Emba"	Emba Holdings Limited
"FFB"	oil palm fresh fruit bunches
"group"	the company and its subsidiaries
"High Court"	The High Court of Justice in England and Wales
"IFRS"	International Financial Reporting Standards
"latest dollar sterling rate"	the exchange rate of £1=\$1.75 ruling on 21 March 2006, the latest practicable date prior to the publication of this document

"Listing Rules"	the Listing Rules of the Financial Services Authority
"London Stock Exchange"	London Stock Exchange plc
"Makassar"	Makassar Investments Limited, a member of the group
"MEZ group"	Mr M E Zukerman and entities associated (or understood to be associated) with him, including Bodley Investment Company, M. E. Zukerman & Co. Incorporated, M. E. Zukerman Investments Limited and the Zukerman family trust, or, where the context so requires, any one or several of such individual and entities
"Mirabaud"	Mirabaud Securities Limited of 21 St James's Square, London SW1Y 4JP
"MP"	Makassar Participation plc, a member of the group
"net debt"	borrowings and other indebtedness of the group (other than intra-group indebtedness), less cash and cash equivalents
"new ordinary shares"	up to 2,828,000 new ordinary shares proposed to be issued under the ordinary share placing and open offer
"new preference shares"	up to 3,000,000 new preference shares proposed to be issued under the preference share placing
"Official List"	the list maintained by the Financial Services Authority in accordance with section 74(1) of the Financial Services and Markets Act 2000
"open offer"	the invitation to qualifying holders to subscribe up to 1,403,042 new ordinary shares at a price of 260p per share that is contained in this document and in the application forms
"ordinary share placing"	the proposed placing by Mirabaud, as agent of the company, of up to 2,413,000 new ordinary shares at a price of 260p per share (subject to clawback of up to 927,331 new ordinary shares to meet applications for new ordinary shares under the open offer) pursuant to the contract summarised in sub-paragraph (9) under "Material contracts" in Part VIII above
"ordinary shares"	ordinary shares of 25p each in the capital of the company
"preference share placing"	the proposed placing by Mirabaud, as agent of the company, of up to 3,000,000 new preference shares at a price of 105p per share pursuant to the contract summarised in sub-paragraph (10) under "Material contracts" in Part VIII above
"preference shares"	9 per cent cumulative preference shares of £1 each in the capital of the company

"proposals"	the proposals, details of which are set out in this document, for (i) the ordinary share placing and open offer, (ii) the preference share placing, (iii) amendment of the terms of the warrants and (iv) a reduction in the capital of the company
"qualifying holders"	holders of ordinary shares and warrants on the registers of members and warrant holders at the close of business on 21 March 2006 (other than certain overseas holders as referred to in Part IV above)
"REA Kaltim"	PT REA Kaltim Plantations, a member of the group
"Rp"	Indonesian rupiah, the lawful currency of Indonesia
"settlement agreement"	the contract summarised in sub-paragraph (5) under "Material contracts" in Part VIII above whereby all litigation claims made or threatened by the MEZ group against the group and the directors and all outstanding litigation claims threatened by the group against the MEZ group were settled and REA acquired the ordinary shares of Makassar formerly owned by the MEZ group
"shareholders"	holders of ordinary shares and/or preference shares
"UK GAAP"	UK Generally Accepted Accounting Policies
"warrants"	the 1,548,807 warrants of the company each entitling the holder to subscribe for one ordinary share at a price of 73.5p either by payment of 73.5p in cash or by surrender of 0.735 preference shares

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## **ORDINARY SHARE PLACING AND OPEN OFFER STATISTICS**

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Issue price	260p
Number of existing ordinary shares	26,512,049
Number of new ordinary shares proposed to be issued pursuant to the ordinary share placing and open offer	2,828,000
Number of ordinary shares expected to be in issue upon completion of the ordinary share placing and open offer	29,340,049
Gross proceeds of the ordinary share placing and open offer	£7.35 million



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## EXPECTED TIMETABLE

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Record date for the open offer	21 March 2006
Latest time and date for splitting application forms	3.00 pm on 10 April 2006
Latest time and date for receipt of completed application forms and remittances	3.00 pm on 12 April 2006
Latest time and date for receipt of proxies for use in connection with the meeting of warrant holders	10.15 am on 16 April 2006
Latest time and date for receipt of proxies for use in connection with the extraordinary general meeting	10.30 am on 16 April 2006
Meeting of warrant holders	10.15 am on 18 April 2006
Extraordinary general meeting	10.30 am on 18 April 2006
Open offer unconditional, issue and listing of new ordinary shares effective and commencement of dealings in new ordinary shares	19 April 2006
CREST accounts credited in respect of new ordinary shares subscribed pursuant to the ordinary share placing	19 April 2006
CREST accounts credited in respect of new ordinary shares subscribed pursuant to the open offer	19 April 2006
Definitive shares certificates despatched in respect of new ordinary shares	26 April 2006
Reduction of capital effective	19 May 2006
Issue and listing of new preference shares effective and commencement of dealings in new preference shares	22 May 2006
CREST accounts credited in respect of new preference shares subscribed pursuant to the preference share placing	22 May 2006

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## CURRENCY

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References in this document to "dollars" and to "\$" are to the lawful currency of the United States. Unless otherwise specifically indicated, where a dollar amount is stated as at a date and with a sterling equivalent, that sterling equivalent represents the sterling conversion of the applicable dollar amount at the exchange rate ruling as at the close of business in London on the date in question or on the last business day preceding that date.

Dated: 22 March 2006

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## NOTICE OF MEETING OF WARRANT HOLDERS

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# R.E.A. Holdings plc

(Registered in England and Wales number 671099)

Notice is hereby given that a meeting of the holders of warrants to subscribe, or to convert preference shares into, ordinary shares in the capital of the company will be held at the London office of Ashurst at Broadwalk House, 5 Appold Street, London EC2A 2HA on 18 April 2006 at 10.15 am for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as extraordinary resolutions

### Extraordinary resolutions

1 THAT, conditional upon the open offer (as defined in the circular dated 22 March 2006 from the company to, *inter alia*, the holders of warrants to subscribe, or to convert preference shares into, ordinary shares in the capital of the company (the "warrants")) being duly completed by the new ordinary shares allotted pursuant thereto being admitted by the Financial Service Authority to the Official List and by London Stock Exchange plc to trading on its market for listed securities and such admissions becoming effective on or before 9.30 am on 16 May 2006:

- (a) the first sub-paragraph of paragraph 1 of the particulars of the warrants be replaced with the following:

"Each warrant shall confer upon the registered holder for the time being the right:

- (i) (the "subscription rights") to subscribe on 31 July 2006, 31 August 2006 and 29 September 2006 (each an "exercise date" and 29 September 2006 being the "final exercise date") £0.60 in cash for one ordinary share of the company payable in full on subscription; or
- (ii) (the "conversion rights") to convert on an exercise date 0.60 fully paid 9 per cent. cumulative preference shares of £1 each in the capital of the company ("preference shares") registered in the name of the holder of the warrant into one ordinary share of the company."
- (b) sub-paragraph (h) of paragraph 2 of the particulars of the warrants be deleted and sub-paragraph (i) of paragraph 2 of the particulars of the warrants be re-numbered as sub-paragraph (h); and
- (c) paragraph 4 of the particulars of the warrants be replaced with a new paragraph 4 as follows:

"Not earlier than 15 June 2006 nor later than 1 July 2006, the company shall give notice to the holders of the warrants (a) reminding them of their warrant rights and, in relation to any warrants that are in uncertificated form, stating the forms of uncertificated exercise notice and uncertificated conversion notice prescribed by the directors and (b) reminding them that 29 September 2006 is the final exercise date and of the provisions of paragraph 2(h) above."

and the rights attaching to the warrants be altered accordingly.

2 THAT the holders of the warrants to subscribe, or to convert preference shares into, ordinary shares in the capital of the company (the "warrants") hereby sanction the implementation of the reduction of capital of the company described in the circular dated 22 March 2006 from the company to, *inter alia*, warrant holders.

By order of the board  
R.E.A. SERVICES LIMITED  
*Secretaries*

*Registered office*  
Third Floor  
40-42 Osnaburgh Street  
London NW1 3ND

22 March 2006

*Notes*

- 1 *The proposed amendments to the rights attaching to the warrants, as set out above and as described in the circular dated 22 March 2006 from the company to, inter alia, warrant holders (of which this notice forms a part) (the "circular"), require the sanction of warrant holders given by an extraordinary resolution of the warrant holders. In addition, the proposed reduction of capital of the company, as described in the circular, would breach the rights attaching to the warrants, unless such proposed reduction of capital has first been sanctioned by an extraordinary resolution of the warrant holders. Further details as regards the proposed amendments to the rights attaching to the warrants and as regards the proposed reduction of capital of the company are set out in Part III of the circular. The attention of warrant holders is also drawn in particular to the recommendation by the directors in Part III of the circular.*
- 2 *The quorum required for a meeting of warrant holders is the holders (present in person or by proxy) of one-third of the outstanding warrants; at any adjourned meeting, if a quorum as defined above is not present, those holders of warrants who are then present in person or by proxy shall be a quorum. An extraordinary resolution as referred to in this notice is a resolution passed by a majority consisting of not less than three-fourths of the votes cast, whether on a show of hands or on a poll.*
- 3 *A holder of warrants entitled to attend and vote at the meeting convened by the above notice may appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a holder of warrants. The instrument appointing a proxy must be deposited at the office of the registrars of the company not less than 48 hours before the time appointed for holding the meeting. The appointment of a proxy will not prevent a holder of warrants from attending and voting at the meeting should he or she wish to do so.*
- 4 *The company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that in relation to securities held in dematerialised form only those holders of warrants registered in the register of warrant holders of the company at 5.00 pm on 16 April 2006 shall be entitled to attend or vote at the meeting in respect of the number of warrants registered in their name at that time. Changes to entries on the register of warrant holders after 5.00 pm on 16 April 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.*

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **R.E.A. Holdings plc**

(Registered in England and Wales number 671099)

Notice is hereby given that an extraordinary general meeting of the company will be held at the London office of Ashurst, at Broadwalk House, 5 Appold Street, London EC2A 2HA on 18 April 2006 at 10.30 am (or so soon thereafter as the meeting of the holders of warrants to subscribe, or to convert preference shares into, ordinary shares in the capital of the company convened for 10.15 am on the same day has been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, the first and third of which will be proposed as special resolutions and the second of which will be proposed as an ordinary resolution

#### **Special resolution**

1. THAT
  - (a) the proposed ordinary share placing and open offer by the company as described in the circular dated 22 March 2006 from the company to, *inter alia*, shareholders (the "proposed ordinary share placing and open offer") pursuant to which it is proposed that the company issue up to 2,828,000 new ordinary shares of 25p each in the capital of the company at 260p per share be and is hereby approved, notwithstanding that the proposed subscription price of 260p per share represents a discount of 19 per cent on the closing mid market quotation of an ordinary share in the capital of the company on 13 February 2006 (being the day immediately preceding the date on which the intention to effect the proposed ordinary share placing and open offer at a price of 260p per share was announced) as derived from the Daily Official List of the London Stock Exchange;
  - (b) the authorised share capital of the company be and is hereby increased from £21,000,000 to £21,750,000 by the creation of 3,000,000 new ordinary shares of 25p each ranking *pari passu* with the existing ordinary shares of 25p each in the capital of the company;
  - (c) the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the company to allot ordinary shares of 25p each in the capital of the company (being relevant securities (as defined in sub-section (2) of that section) up to an aggregate nominal amount of £707,000, such authority to expire on 16 May 2006 and to be in addition to, and without prejudice to, all existing authorities granted to the directors for the purposes of section 80 of the Act; and
  - (d) the directors be and are hereby empowered to allot equity securities (as defined in sub-section (2) of section 94 of the Act) of the company pursuant to the authority conferred by paragraph (c) above as if sub-section (1) of section 89 of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of up to 2,828,000 new ordinary shares of 25p each in the capital of the company pursuant to the proposed ordinary share placing and open offer.

**Ordinary  
resolution**

2. THAT, conditional upon the proposed reduction of capital of the company, details of which are set out in the circular dated 22 March 2006 from the company to, *inter alia*, shareholders becoming effective by 31 May 2006:

- (a) the authorised share capital of the company be and is hereby increased from £21,750,000 to £24,750,000 by the creation of 3,000,000 new 9 per cent cumulative redeemable preference shares of £1 each ranking *pari passu* with the existing 9 per cent cumulative redeemable preference shares of £1 each in the capital of the company save that the dividend payable on such new preference shares payable on 30 June 2006 in respect of the period from the date of issue to that date shall be 2¼p per share; and
- (b) the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the company to allot 9 per cent cumulative redeemable preference shares of £1 each in the capital of the company (being relevant securities (as defined in sub-section (2) of that section)) up to an aggregate nominal amount of £3,000,000, such authority to expire on 31 May 2006 and to be in addition to, and without prejudice to, all existing authorities granted to the directors for the purposes of section 80 of the Act.

**Special  
resolution**

3. THAT, conditional upon the open offer as described in the circular dated 22 March 2006 from the company to, *inter alia*, shareholders being duly completed by the new ordinary shares allotted pursuant thereto being admitted by the Financial Services Authority to the Official List and by London Stock Exchange plc to trading on its market for listed securities and such admissions becoming effective on or before 9.30 am on 16 May 2006:

- (a) the balance standing to the credit of the capital redemption reserve of the company as at 6.00 pm on the date of the passing of this resolution be cancelled; and
- (b) the amount standing to the credit of the share premium account of the company as at 6.00 pm on the day immediately preceding the day on which the High Court of Justice in England and Wales makes an order confirming the reduction of capital set out in this resolution be reduced by £2,760,334.

By order of the board  
R.E.A. SERVICES LIMITED  
*Secretaries*

*Registered office*  
Third Floor  
40-42 Osnaburgh Street  
London NW1 3ND

22 March 2006

*Notes*

- 1 *A member of the company entitled to attend and vote at the meeting convened by the above notice may appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the company. The instrument appointing a proxy must be deposited at the office of the registrars of the company not less than 48 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.*
- 2 *The company, pursuant to regulation 41 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 5.00 pm on 16 April 2006 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 5.00 pm on 16 April 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.*