

This document comprises (i) a base prospectus relating to R.E.A. Holdings plc and its wholly owned subsidiary, REA Finance B.V., covering a proposed issue by REA Finance B.V. of up to £28,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 which will be unconditionally and irrevocably guaranteed by R.E.A. Holdings plc and issued pursuant to an offering programme; and (ii) final terms in respect of an initial tranche of up to £15,000,000 nominal of such notes. This document has been prepared in accordance with the Prospectus Rules of the Financial Services Authority made under section 73A of the Financial Services and Markets Act 2000 and has been approved by, and filed with, the Financial Services Authority in accordance with those rules.

REA Finance B.V. and R.E.A. Holdings plc are responsible for the information contained in this document. To the best of the knowledge of REA Finance B.V. and R.E.A. Holdings plc, having 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.

Application will be made to the Financial Services Authority and to London Stock Exchange plc for up to £28,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. to be admitted to the Official List and to trading on the Regulated Market of London Stock Exchange plc (being a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive)), subject to due compliance with the requirements of the Financial Services Authority and London Stock Exchange plc in relation to offering programmes. It is expected that, as respects the initial tranche of such notes, such admissions will become effective and dealings in such notes will commence on 22 August 2008.

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

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**£28,000,000 nominal of 9.5 per cent guaranteed sterling notes  
2015/17 to be issued by REA Finance B.V. and unconditionally  
and irrevocably guaranteed by**

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

of which it is proposed that up to £15,000,000 be issued for  
cash at 99.8682 per cent of par and that the balance be  
available for issue pursuant to an offering programme

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**The £28,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. the subject of this prospectus (the "further notes") will rank *pari passu* with and form a single series with the £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. that are already in issue and are admitted to the Official List and to trading on the Regulated Market of London Stock Exchange plc.**

The further notes have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act"). Accordingly, further notes may not be offered or sold within the United States, or to or for the account or benefit of any US persons, except in certain transactions that are exempt from the registration requirements of the Securities Act. The further notes have not been approved or disapproved by the US Securities and Exchange Commission or any other US regulatory authority, nor have any of the foregoing authorities passed comment upon the merits of the offer of the further notes or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The further notes may not be offered or sold in or from any country or jurisdiction except in circumstances that comply with any applicable rules and regulations of any such country or jurisdiction.

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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 further notes 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 issuer 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**

Substantially the whole business of the group is represented by oil palm operations in East Kalimantan, Indonesia. Land allocations held by the group will, upon completion of a recent acquisition that is conditional upon necessary Indonesian regulatory approvals, total slightly in excess of 129,000 hectares (subject to survey of some areas). The land allocations comprise a core area lying either side of the Belayan river (a tributary of the Mahakam river, one of the major river systems of South East Asia) together with satellite areas located within reasonable proximity of the core area.

Areas planted and in course of development as at 31 December 2007 amounted in total to 26,408 hectares of which 16,245 hectares are currently mature and the balance is immature. It is the directors' intention that the group should seek to plant with oil palms all suitable undeveloped land available to the group (other than areas set aside by the group as conservation areas) as rapidly as financial and logistical constraints permit.

Land allocations obtained by the group have to go through a titling process; only when that process has reached a certain stage does an allocation become available for planting by the group. In 2007, the group was unable to arrange for sufficient allocated land to be made available for planting to fulfil the requirements of the group's extension planting programme. Thus, extension planting had to be suspended. A significant part of the land allocated to the group is still not available for planting but steps taken to overcome the problem experienced in 2007 have provided the group with substantial areas of allocated but hitherto undeveloped land that is now immediately available. Extension planting was resumed in May 2008 and is progressing well.

Extension planting targets for 2008 and 2009 have been set at 6,500 hectares per annum. In addition the group will aim to catch up the uncompleted balance of the 2007 programme of some 5,000 hectares. If achieved, this programme would result in a total area under oil palm or in course of development of slightly under 45,000 hectares by the end of 2009.

The group operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The first mill has a current capacity of 80 tonnes per hour. The second mill was brought into production in 2006 with an initial capacity of 40 tonnes per hour. It is planned to

expand this to 60 tonnes per hour during 2008 and further to 80 tonnes per hour in 2009. The additional capacity provided by such expansion should be sufficient to process the expected increases in FFB crops pending construction of the group's third oil mill, programmed to commence in 2010. The group's second oil mill incorporates, within the overall facility, a palm kernel crushing plant in which all palm kernel output from the group's two oil mills is further processed to extract the crude palm kernel oil that the palm kernels contain.

The group has its own fleet of river barges which are used to transfer CPO and CPKO from storage tanks adjacent to the oil mills either to the transshipment terminal owned by the group downstream of the port of Samarinda or directly to buyers' vessels. In addition, the group time charters one larger barge which can be used for sea voyages to Malaysia and within Indonesia. This permits delivery of CPO and CPKO direct to customers' nominated destinations in Malaysia and Indonesia.

FFB production from the group's operations has risen over the past five years from 222,713 tonnes in 2003 to 393,217 tonnes in 2007. The FFB crop for 2008 has been budgeted at 421,000 tonnes. From 2009 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 atypical weather conditions, a CPO extraction rate of about 24 per cent and a palm kernel extraction rate of about 4 per cent have generally been achieved.

The group's revenues are principally dependent upon CPO prices. Over the ten years to 31 December 2007, the monthly average CPO price CIF Rotterdam, as derived from prices published by Oil World, moved between a high of \$952 per tonne and a low of \$234 per tonne. The average price over the same ten years was \$469 per tonne. The price of CPO, spot CIF Rotterdam, rose strongly in the first quarter of 2008 and in early March 2008 CPO traded at in excess of \$1,300 per tonne. The price has subsequently fallen back and currently stands at about \$1,030 per tonne.

**Purposes of the proposed issue**

The group currently has substantial cash resources but the extent of its liquidity reflects delays to the 2007 planned development programme that meant that development expenditure during 2007 was lower than it would have been had the development programme proceeded as intended. Following the resumption of extension planting in May 2008, the group is aiming to plant some 18,000 hectares of additional land over the period to 31 December 2009. This will involve the group in major development expenditure.

At the current level of CPO prices, the group's operating activities are producing significant positive cash flows. If maintained, these cash flows, coupled with the cash resources already held by the group, could be expected to fund a substantial proportion, if not all, of the development expenditure currently planned. However, as there can be no certainty that the group will continue to enjoy revenues from its CPO sales at current levels, the directors feel that, in committing the group to new development, they should endeavour to ensure that the group maintains cash reserves that can reasonably be expected to be sufficient to complete all works associated with the development in the event that the cash flows projected to be available from operational activities do not fully materialise.

This means that, notwithstanding its existing liquidity, the group will require additional funding. The proposed issue of further notes is designed to meet that requirement as currently estimated on the basis of the group's existing development programme.

**Particulars  
of the  
further notes**

The further notes, which will be issued by the issuer and unconditionally and irrevocably guaranteed by the company, will rank *pari passu* with and form a single series with the original notes. All proceeds from the issue of the further notes will be applied in making loans to REA Kaltim and/or other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit.

The issuer is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands, which was established as a wholly owned subsidiary of the company for the purposes of the issue of the original notes.

The issuer proposes to issue the first tranche of the further notes pursuant to a placing of up to £15,000,000 nominal of the further notes at a subscription price of 99.8682 per cent of par, payable in full on allotment. The results of the placing are expected to be announced on 21 August 2008, with dealings in the initial tranche of the further notes commencing on 22 August 2008.

The further notes, if issued, will be in registered form in amounts and integral multiples of £1,000 and will be listed on the Official List and traded on the Regulated Market of the London Stock Exchange. The further notes will bear interest at the rate of 9.5 per cent per annum payable semi-annually in arrear on 30 June and 31 December of each year, save that interest for the period from the date of issue of each tranche of further notes to the next following 30 June or 31 December will be calculated as if such interest had accrued for a full six month period.

Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes will be redeemed at par by three as nearly as possible equal annual instalments commencing 31 December 2015. If sterling notes have been purchased by the issuer and cancelled, the amount of sterling notes that the issuer will be obliged to redeem on any given redemption date will be reduced by the nominal amount of sterling notes purchased and cancelled prior to that redemption date (save in so far as such notes were purchased and cancelled prior to a previous redemption date and taken into account in reducing the sterling note redemption requirement in relation to that previous redemption date).

The original notes are, and the further notes will be, secured by way of a first charge over any cash balances held from time to time by the issuer at bank and all rights of the issuer in respect of all loans owed from time to time by the Indonesian debtor subsidiaries to the issuer. Following completion of the issue of the initial tranche of the further notes and the on-lending of the gross proceeds of that issue to Indonesian subsidiaries of the company, those loans will comprise sterling denominated loans of £22,385,000 plus such on-lent gross proceeds and dollar denominated loans of \$36,500,000. All loans owed by the Indonesian debtor subsidiaries to the issuer will be unsecured obligations of those subsidiaries.

Under the terms of the amended and restated trust deed, the company will be obliged to procure that the combined borrowings (net of cash balances) of the Indonesian debtor subsidiaries and the issuer do not exceed an agreed limit. That limit is currently \$114,402,000 but will be increased on a formula basis if operating cash flows from REA Kaltim increase. External borrowings will include the principal amount of the sterling notes, converted into dollars at the spot rates applicable on the dates of issue of the notes, but will exclude (i) monies owed by the issuer to the company or any subsidiary of the company; (ii) monies owed by the Indonesian debtor subsidiaries to the issuer and each other; and (iii) external borrowings of up to \$10 million incurred for the purposes of repaying then existing external borrowings.

Subject to the limit on the combined borrowings of the issuer and the Indonesian debtor subsidiaries and a limit on the combined secured indebtedness of the Indonesian debtor subsidiaries of \$55,000,000, the Indonesian debtor subsidiaries will be free to continue existing, and/or enter into new, external borrowing arrangements that are secured. The issuer and REA Kaltim have entered into, and the issuer and Indonesian debtor subsidiaries may enter into, subordination arrangements which subordinate obligations owed or to be owed by REA Kaltim and other Indonesian debtor subsidiaries to the issuer to other obligations of the applicable Indonesian debtor subsidiaries (including obligations under hedging contracts). The issuer will not be permitted to create security over its assets (save for the security described above in relation to the sterling notes).

The amended and restated trust deed will not contain any provisions limiting the indebtedness of, or imposing financial covenants on, the company.

The issuer will be free to receive and retain and/or expend monies received in respect of its loans to the Indonesian debtor subsidiaries unless and until the security for the sterling notes becomes enforceable, subject always to restrictions on the use of such monies contained in, and continued compliance with the covenants imposed by, the amended and restated trust deed.

If any person or group of persons acting in concert acquires shares in the company carrying more than 50 per cent of the votes which may generally be cast at general meetings of the company, each holder of sterling notes will have the right to require that the sterling notes held by such holder be repaid at 101 per cent of par together with accrued interest.

#### **Risk factors**

The value of the further notes may be adversely affected by changes in economic conditions and in the group's performance and prospects. Furthermore, although the further notes will be secured obligations of the issuer, the further notes will be secured principally on loans from the issuer to the Indonesian debtor subsidiaries that will themselves be unsecured obligations of those subsidiaries. Moreover, such obligations may be subordinated to other obligations of the subsidiaries concerned (including obligations under hedging contracts) and will be subject to the uncertainties connected with the enforcement of such obligations in Indonesia.

The terms and conditions applicable to the further notes will only restrict borrowings by the Indonesian debtor subsidiaries by reference to overall limits on the aggregate external indebtedness of the issuer and the Indonesian debtor subsidiaries and on the secured borrowings of the Indonesian debtor subsidiaries. There will be no restrictions on further borrowings by, or the grant of security by, the company or any other members of the group.

The market in the original notes is, and it is likely that even with the issue of any further notes the market in the sterling notes will remain, illiquid.

In addition, a number of risks could affect the group's future operating performance. Of these, the more material include:

- the exposure of the group's operations to adverse climatic conditions, pests, diseases and potential damage from logistical disruptions;
- the financial dependence of the operations upon CPO prices and, as respects the planned level of the extension planting programme, the group's ability to make land available for planting and to finance expansion at the rate that the programme will require;
- currency risks inherent in the fact that CPO is essentially a dollar based commodity;

- environmental risks stemming from the group's involvement in planting oil palm in a region that elsewhere includes substantial areas of unspoilt rain forest; and
- regulatory, country and locality risks that arise from the fact that substantially all of the group's assets are located in the East Kalimantan province of Indonesia.

**Salient  
financial  
information**

The following table shows, for the years indicated, the group's earnings before interest, tax, depreciation and movement on biological assets, together with group interest incurred gross and net of interest capitalised (comprising amounts charged as additions to biological assets or capitalised on acquisition):

	Year to 31 December 2007 \$'000	Year to 31 December 2006 \$'000
Earnings before interest, tax, depreciation and movement on biological assets	<u>43,346</u>	<u>13,733</u>
Interest incurred (gross)	8,742	6,130
Interest capitalised	<u>(5,164)</u>	<u>(3,751)</u>
Interest incurred (net)	<u>3,578</u>	<u>2,379</u>

The following table shows, at the dates indicated, the group's net debt (at book values) and total equity:

	As at 31 December 2007 \$'m	As at 31 December 2006 \$'m
Net debt	<u>52.0</u>	<u>60.5</u>
Total equity	<u>148.6</u>	<u>105.5</u>

The figures in the above two tables are derived from figures extracted without material adjustment from the financial statements and notes thereto contained in the annual report of the company for the year ended 31 December 2007.

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## **PART II. RISK FACTORS**

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### **1. General**

**Before making any investment decisions, prospective investors in the further notes 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 further notes. 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 further notes will represent investments in the loan capital of the issuer supported by a guarantee from the company. As such, payments of interest and repayment of principal in respect of the further notes will be dependent upon the future ability of the issuer and the company to meet their obligations.

Although the further notes will be secured obligations of the issuer, they will be secured principally by way of charges over all loans owed by Indonesian subsidiaries of the company to the issuer, which loans will themselves be unsecured obligations of those subsidiaries.

The issuer has agreed to subordinate existing loans owed to it by REA Kaltim to indebtedness owed by REA Kaltim to its Indonesian bankers and to the obligations of REA Kaltim under a derivative financial instrument providing a hedge against dollars of sterling indebtedness owed by REA Kaltim to the issuer. The issuer may enter into further arrangements pursuant to each of which the issuer would agree to subordinate indebtedness owed to the issuer by an Indonesian debtor subsidiary to (i) indebtedness of that subsidiary to commercial lenders falling due for repayment on or before 31 December 2015 or (ii) obligations of that subsidiary under a derivative financial instrument providing a hedge against dollars of sterling indebtedness owed by such subsidiary to the issuer.

The existing subordination arrangements prevent, and future subordination arrangements may prevent, the issuer from taking steps to enforce recovery of amounts owed by the Indonesian debtor subsidiaries to the issuer while the applicable bank loans and hedging arrangements remain outstanding.

The terms and conditions applicable to the further notes will only restrict levels of borrowing by the issuer and the Indonesian debtor subsidiaries by imposing an obligation on the company to procure compliance with overall limits on the aggregate indebtedness of the issuer and the Indonesian debtor subsidiaries and on the secured borrowings of the Indonesian debtor subsidiaries. In particular, such terms and conditions will permit secured borrowings by the Indonesian debtor subsidiaries (thus ranking in priority to the loans owed by the Indonesian debtor subsidiaries to the issuer) up to an aggregate cap of \$55,000,000. Moreover the limit on indebtedness of the issuer and the Indonesian debtor subsidiaries will exclude (i) monies owed by the issuer to the company or any subsidiary of the company; (ii) monies owed by the Indonesian debtor subsidiaries to the issuer and each other; and (iii) external borrowings of up to \$10,000,000 incurred for the purposes of repaying then existing external borrowings, provided that the monies so borrowed are applied, within 18 months, in making the proposed repayment.

There will be no restriction on further borrowings by, or the grant of security by, the company or any other member of the group other than the issuer and the Indonesian debtor subsidiaries. The company itself will not be subject to any financial covenants.

Whilst, under the current tax laws of the Netherlands, all payments in respect of the sterling notes will normally be made free of withholding tax, the terms and conditions applicable to the further notes will provide that such payments will be subject to withholding tax if required by law and the issuer will be under no obligation to gross up any such withholding tax.

**3. Market issues** The value of an investment in the further notes may be affected by many factors including general economic conditions, levels of interest rates, political events and trends, tax laws and rates of inflation. The value may also be affected by actual and/or perceived changes in the group's financial condition, performance and prospects reflecting, *inter alia*, announcements made and/or reports published by the company, speculation about the group's business in the press, media or the investment community and/or the publication by investment analysts of research reports concerning the group and/or the market in which it operates.

The market in the original notes is, and it is likely that even with the issue of any further notes the market in the sterling notes will remain, illiquid. Lack of liquidity may adversely affect the value of an investment in the further notes and may make it difficult to sell such notes. Even if an active market in the sterling notes were to develop, the further notes may trade at prices lower than the subscription price.

**4. Jurisdictional issues** The sterling notes are governed by English law but the issuer is incorporated in the Netherlands and the loans by the issuer to REA Kaltim and the other Indonesian debtor subsidiaries, upon which the original notes are, and the further notes will be, principally secured, are or will be governed by Indonesian law. The English courts have jurisdiction as regards any disputes concerning the sterling notes. The Indonesian courts have jurisdiction as regards any disputes concerning the loans made by the issuer to REA Kaltim and will have jurisdiction as regards any disputes concerning future loans made by the issuer to Indonesian debtor subsidiaries. Accordingly, enforcement of the rights attaching to the sterling notes may be complicated by jurisdictional issues.

A judgment rendered by an English court will be recognised and enforced in the Netherlands subject to the provisions of the EC Regulation on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters of 22 December 2000 and the EC Regulation creating a European Enforcement Order for uncontested claims of 21 April 2004, as amended from time to time.

**5. Other legal issues** In June 2006, the Indonesian Supreme Court upheld the decisions of a District Court and the High Court in Indonesia, ruling that a \$500,000,000 issue of notes, issued by a Dutch subsidiary of an Indonesian parent company and guaranteed by the Indonesian parent, with the proceeds of issue being lent by the Dutch subsidiary to the Indonesian parent, was null and void. The Supreme Court accepted the claim brought by the Indonesian parent, presumably in an attempt to avoid its liability to repay the loan from the Dutch subsidiary and under the guarantee, holding that the contracts made in relation to the notes were made without any real commercial purpose (contrary to the requirements of Article 1320 of the Indonesian Civil Code) on the basis that the Indonesian parent was, in reality, both debtor and guarantor of the same debt. The Supreme Court also ruled that the structure of the offering was unlawful as it was intended to avoid the Indonesian withholding tax payments that would have been required had the notes been issued by the Indonesian parent.

In August 2006, in another case, the Indonesian Supreme Court reached a similar decision on similar grounds affirming lower court judgements invalidating a further \$550,000,000 of notes issued through a similar offshore offering structure to that described above. In other judgements by lower Indonesian courts in respects of claims brought by Indonesian companies that have defaulted on and/or sought to avoid debt obligations incurred in connection with offshore financing structures, other Indonesian companies have obtained declarations to the effect that their debt obligations are null and void; that the security granted by them for such obligations is null and void; that the parties to the issue of such obligations have committed torts and are liable for damages; and that the holders of the debt obligations are prohibited from trading in the obligations and from enforcing (in Indonesia or elsewhere) rights arising from such debt obligations.

Whilst the published reports, including those court decisions that are available, do not provide a clear factual basis or legal rationale for these judgments, it does seem that the obligations that would be incurred by the Indonesian debtor subsidiaries in connection with the proposed issue of the further notes can be distinguished from the debt obligations referred to above. In so far as can be ascertained from the reports that

are available, it would seem that such decisions have been given where the special purpose vehicle established to issue notes or other debt obligations and lend the proceeds into Indonesia was a subsidiary of an Indonesian company and where the notes or other debt obligations of the special purpose vehicle were guaranteed and/or secured by the Indonesian beneficiary of the funds raised.

By contrast, the Indonesian debtor subsidiaries are not subsidiaries of the issuer but the issuer and the Indonesian debtor subsidiaries are all subsidiaries of the company, a UK listed company of which substantially all of the issued share capital is held by European investors, the further notes will be guaranteed by the company rather than any Indonesian company and the security for the further notes will be provided by the issuer itself rather than by any Indonesian company. Furthermore, REA Kaltim is registered under the Foreign Investment Laws of Indonesia and all other Indonesian subsidiaries of the company to which the proceeds of issue of the further notes may, in the future, be lent will also be registered under such legislation (for so long as such registration remains possible). As such, REA Kaltim is, and the other Indonesian debtor subsidiaries will be, subject to Indonesian reporting requirements as regards their offshore borrowings.

The company has been advised that these factors are likely to provide protection against the Indonesian courts declaring loans made by the issuer to the Indonesian debtor subsidiaries as null and void. The company has also been advised that even if the Indonesian debtor subsidiaries were to seek to avoid their obligations to repay loans from the issuer (presumably only in the event of insolvency or some form of nationalisation, as the company would not itself, as the parent company of the Indonesian debtor subsidiaries and the guarantor of the sterling notes, direct such an attempt) and the Indonesian courts were to hold that the obligations of the Indonesian debtor subsidiaries to repay the loans made by the issuer to those subsidiaries were null and void, as a Dutch incorporated company, the issuer may be entitled to seek redress against the Government of Indonesia in an international arbitration or conciliation hearing under the agreement between the governments of Indonesia and the Netherlands on the promotion and protection of investment.

The company has also been advised that even if the Indonesian courts were to hold that the obligations of the Indonesian debtor subsidiaries to repay the loans made by the issuer to those subsidiaries were null and void, it is highly unlikely that the Indonesian courts would attempt to pass judgement on the enforceability of the guarantee given by the company in respect of the sterling notes. Moreover, even if the Indonesian courts were to do so, the company has been advised that the likelihood of an English court giving effect to that judgement, involving as it would a guarantee by an English company under English law and subject to English jurisdiction, is negligible.

However, the security for the further notes will principally comprise charges over obligations to repay loans from the issuer to the Indonesian debtor subsidiaries (which loans will be governed by Indonesian law). Thus the uncertainties that exist as to the enforcement of debt obligations of this sort in Indonesia mean that there can be no certainty that an Indonesian action to enforce repayment of the loans would be successful.

Furthermore, as neither the issuer nor the trustee is registered in Indonesia, it is not currently possible to register the Indonesian law fiduciary assignments of receivables which supplement the Dutch law deeds of pledge creating the security for the sterling notes. Thus, whilst the directors have been advised that the existing fiduciary assignment is, and that the new fiduciary assignment proposed to be executed will be, valid and binding under Indonesian law, the security granted under the fiduciary assignment will not, under Indonesian law, survive the insolvency of the issuer as assignor.

## **6. Agricultural factors**

Although the group's operations are located in an area of high rainfall with sunlight hours and soil conditions well suited to the cultivation of oil palm, weather and growing conditions vary from year to year and setbacks are possible. Particularly high levels of rainfall can disrupt estate operations. Atypically 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.

As in any agricultural operation, there are also risks that crops may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

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

**7. Operational factors**

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

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

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

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

**8. Produce prices**

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

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although, as noted under "Revenues and markets" in Part VI 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.

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

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

#### **9. Expansion**

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

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

#### **10. Currency**

CPO is essentially a dollar based commodity. Accordingly, the group's revenues and the underlying value of the group's oil palm operations are effectively dollar denominated. A substantial component of the group's costs (including fertiliser and machinery inputs) are also dollar denominated or linked.

All of the group's existing borrowings other than the original notes are dollar denominated and the group has entered into a sterling dollar debt swap to hedge the original notes. The directors intend that the further notes should, like the original notes, be hedged by a sterling dollar debt swap provided that such swap can be arranged on terms that the directors consider commercial.

Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiah and sterling (other than debt service costs that are hedged) may, if such currencies strengthen against the dollar, negatively impact margins in dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

#### **11. Environmental practices**

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

The group is committed to sustainable oil palm development and aims to follow best practice on environmental issues. An environmental master plan was constructed at the start of the project using independent environmental experts. Progress against this plan is carefully monitored and the plan is regularly updated to reflect modern practice and to take account of changes in circumstance.

- 12. Regulatory exposure**
- Changes in existing, and adoption of new, Indonesian laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation) could have a negative impact on the group's activities. Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions.
- Land in East Kalimantan held by the group is held subject to satisfaction by the group of various continuing conditions, including conditions requiring the group to procure smallholder developments of oil palm on areas ultimately equivalent to not less than 20 per cent of the group's titled areas. Failure to comply with such conditions could result in a revocation of land titles.
- 13. Country exposure**
- All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence. In recent years, there have been occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. During 2007 and 2008 to date, Indonesia has been stable and the Indonesian economy has continued to grow. Recent upward pressure on food prices is, however, a concern and could cause social unrest.
- Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and, since the inception of its East Kalimantan operations in 1989, has never been adversely affected by security problems.
- Although there can be no certainty as to such matters, under current political conditions, the directors are not aware of any circumstances which would lead them to believe that any government authority would revoke the registered land titles granted to the group, impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.
- 14. Local relations**
- The operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in its area of operations in East Kalimantan.
- Whilst the group does have employees in Indonesia from outside East Kalimantan, care has always been taken to give priority to applications for employment from members of the local population. Moreover, local contractors used by the group provide employment opportunities for residents of surrounding villages and such residents also act as suppliers to the group and its employees. The directors believe that, as a result, the group's operations have been a source of increased prosperity to the surrounding villages and that the group has reasonable relations with those villages. The group has made progress in recent years in assisting the surrounding villages in establishing their own smallholdings of oil palm and it is hoped that this, together with other initiatives to encourage local farmers in the production of foodstuffs, will assist in developing the group's relationships with the local population.
- The group's operations are established in a relatively remote and sparsely populated area. The operational areas were acquired with the knowledge and support of the local authorities and development has been arranged wholly within the areas in respect of which the group has obtained the required development permits. These areas are comprised of government owned land which was for the most part unoccupied prior to the group's arrival. However, some small areas of land were previously used by local villagers for the cultivation of crops and, accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.
- The negotiation of compensation payments can involve a considerable number of local individuals with differing views and this can cause difficulties in reaching agreement with all affected parties. There is also a risk that, after an agreement has been completed, a party to the agreement may become disaffected with the terms agreed and may seek to repudiate the agreement. Such difficulties and risk have in the past caused, and are likely to continue periodically to cause, delays to the extension

planting programme and other disruption. The group has to-date been successful in managing such periodic delays and disruption so that they have not, in overall terms, materially disrupted the group's extension planting programme or operations generally but there is a continuing risk that they could do so.

**15. Other relationships**

The group is materially dependent upon its staff and employees and endeavours to manage this dependence as detailed under "Employment and social obligations" in Part VI below.

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

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## **PART III. INFORMATION INCORPORATED BY REFERENCE**

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- 1. Referenced documents** This document incorporates by reference extracts from the annual reports of the company for the two financial years ended 31 December 2007.
- These reports may be inspected as described under "Documents available for inspection" in Part IX below and will also be available for downloading from the company's web-site at "www.rea.co.uk" for so long as any of the further notes remain capable of issue pursuant to this prospectus.
- 2. Information incorporated** The extracts from the documents referred to under "Referenced information above" that are incorporated by reference are:
- pages 43 to 71 of the annual report of the company for the financial year ended 31 December 2006 comprising the auditors' report (group), consolidated financial statements, accounting policies (group) and notes to the consolidated financial statements (as referenced under "Historical financial information regarding the company" in Part VIII on page 51 below); and
  - pages 56 to 88 of the annual report of the company for the financial year ended 31 December 2007 comprising the auditors' report (group), consolidated financial statements, accounting policies (group) and notes to the consolidated financial statements (as referenced under "Historical financial information regarding the company" in Part VIII on page 51 below).

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## **PART IV. THE PROPOSED ISSUE**

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### **1. General**

The issuer proposes to create £28,000,000 nominal of further notes ranking *pari passu* with and forming a single issue with the original notes so as to create a total issue of up to £50,000,000 nominal of sterling notes.

The creation of the further notes is conditional upon:

- the passing of the resolution set out in the notice of a meeting of the holders of the original notes convened for 21 August 2008 (being a resolution sanctioning (i) certain proposed amendments to the existing terms and conditions of the sterling notes and (ii) a proposed amendment to clause 7 of the REA Kaltim loan agreement to provide that REA Kaltim should bear not only the costs and expenses associated with the agreement itself but also its fair proportion of all costs and expenses incurred by the issuer or the company in raising any monies which are then on-lent to REA Kaltim, REA Kaltim's "fair proportion" being such proportion of the total costs and expenses incurred by the issuer and the company in connection with raising the monies as equals the proportion that the amount lent to REA Kaltim is of the amount raised by the issuer);
- receipt of any necessary consents from the Treasury pursuant to section 765 of the Income and Corporation Taxes Act 1988 of the United Kingdom as respect loans proposed to be made by the issuer;
- the execution by the parties thereto of a second supplemental trust deed amending and restating the original trust deed;
- the execution by the parties thereto of a Dutch law deed of pledge of receivables and an Indonesian law fiduciary assignment of receivables, creating the further security for the sterling notes;
- the exchange between the parties thereto of a letter amending the terms of the REA Kaltim loan agreement as sanctioned by the resolution of the holders of the original notes referred to above; and
- the receipt by Capita Trust Company Limited, as trustee for the holders of the sterling notes, of Dutch law and Indonesian law legal opinions and directors' certificates (each in form and substance satisfactory to Capita Trust Company Limited).

The terms and conditions of the sterling notes (as proposed to be amended) are set out in Part V below and summarised under "Details of the sterling notes" below.

Pursuant to the placing agreement summarised at contract (11) under "Material contracts" in Part IX below, Guy Butler, as agent of the issuer, has undertaken to use its reasonable endeavours to place an initial tranche of up to £15,000,000 nominal of the further notes at a subscription price of 99.8682 per cent of par, payable in full on allotment. Such placing is conditional upon the creation of the further notes and the admission of the further notes placed to the Official List and to trading on the Regulated Market of the London Stock Exchange by no later than 26 September 2008.

The company will announce the results of the placing by notification to the Regulatory News Service of the London Stock Exchange. It is expected that such announcement will be made on 21 August 2008 and that dealings in the fully paid notes issued pursuant to the placing, for normal settlement, will commence on 22 August 2008.

The balance of the further notes will be available for issue for cash, as markets permit, for a period of up to twelve months from the date of this document and thereafter for such further period as the issuer may determine and for which the issuer shall have filed and published a valid prospectus (or base prospectus) in compliance with the Prospectus Rules. It is expected that, if issued, the balance of the further notes will be issued in further tranches by way of further placings with substantial investors. Upon any agreement to issue a further tranche of the further notes, the company will announce, by notification to the Regulatory News Service of the London Stock Exchange, the nominal amount of the further notes agreed to be issued and the price at which, or consideration

for which, it has been agreed that such notes be issued. On the basis of the current level of interest rates, such further notes would be issued at a maximum price equal to par plus the accrued interest entitlement carried by the applicable further notes upon issue. Should there be a change in the level of interest rates applicable to sterling borrowings or Indonesian based risk, the directors would expect the issue price to be adjusted to reflect such a change. The directors do not expect that the issue price would be reduced to such an extent that further notes would be issued at a deep discount to par.

The further notes will be issued in registered form, in amounts and integral multiples of £1,000, and may be held in uncertificated form on the CREST system. Since completion of the issue of the original notes, Guy Butler has maintained a market in the sterling notes and has indicated, without commitment, that it will continue to do so.

No arrangements have been agreed with any person as respects the co-ordination, underwriting or placing of any additional tranche of the further notes. The company and the issuer reserve the right to pay commission to intermediaries in connection with the issue of such further notes.

Any transaction in the sterling notes conducted in or from the United Kingdom or the Netherlands is subject to the United Kingdom or the Dutch (as applicable) insider trading rules pursuant to the applicable securities laws.

## **2. Reasons for the issue**

At 31 December 2007, the group held cash and cash equivalents of some \$34,000,000. However, the extent of the group's cash resources at that date reflected the fact that there were delays to the 2007 planned development programme and hence development expenditure during 2007 was lower than it would have been had the development programme proceeded as intended. The group resumed extension planting in May 2008 and the development programme is now proceeding apace on three separate development sites. This will involve the group in major capital expenditure.

At the current level of CPO prices, the group's operating activities are producing significant positive cash flows. If maintained, these cash flows, coupled with the cash resources already held by the group, could be expected to fund a substantial proportion, if not all, of the development expenditure currently planned. However, there can be no certainty that the group will continue to enjoy revenues from its CPO sales at current levels.

Every hectare of new oil palm planted brings with it a need to finance not only the immediate cost of planting but also the further costs of upkeeping the newly planted area over the three year period to maturity, of providing the infrastructure, buildings and equipment needed in connection with the new area and of establishing the additional processing capacity required to mill the extra crop that the new area will eventually produce. The directors believe that, in committing the group to new development, they should endeavour to ensure that the group maintains cash reserves that can reasonably be expected to be sufficient to complete all works associated with the development in the event that cash flows from operational activities projected to be available for development do not fully materialise.

This means that, notwithstanding its existing cash position, the group will require additional funding. The directors believe that if the current level of CPO prices is maintained and the group in due course finds itself with greater cash reserves than the directors consider necessary for current development plans, good use can be made of surplus funds in accelerating or expanding those plans.

In order to maximise the equity returns from its oil palm operations, the group needs to meet a prudent proportion of its capital requirements with debt. The percentage of the group's total equity represented by net debt fell over 2007 from 57.4 per cent at 31 December 2006 to 35.0 per cent at 31 December 2007. The directors therefore consider that the group's current equity base can comfortably support additional debt and that it is sensible to meet the present requirement for additional funding with debt.

The directors continue to believe that the group's interests are best served if the group's borrowings are structured to fit the maturity profile of the assets that the borrowings are financing. Since oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors aim to structure the group's borrowings so that shorter term bank debt is used only to finance

working capital, with debt funding for the group's development programme being sourced from issues of medium term listed debt securities and borrowings from development institutions.

The group already has outstanding two issues of listed debt securities, namely \$30,000,000 nominal of dollar notes and the £22,000,000 nominal of original notes. The directors believe that it is currently preferable that any further issue of medium term listed debt securities be made as an addition to one of these two existing issues rather than as a separate issue. This is likely to involve lower administrative costs and, by increasing the nominal amount of the relevant notes in issue, may improve the liquidity of such notes.

The directors have found that many European and Asian investors in the dollar debt markets regard the group as too small for them to be able to consider an investment in the group's debt securities. Thus, the directors believe that, in current markets, it would be difficult for the company to issue further dollar notes. By contrast, the directors feel that a further issue of sterling notes would allow the group to access those UK based institutional investors who invest mainly in sterling denominated securities and whom the group has previously found (as with the issue of the original notes) to be more willing to invest in debt securities of smaller companies than investors in markets for dollar denominated debt securities. Moreover, the sterling notes have the advantage of being of longer tenor than the dollar notes.

Borrowings from development institutions may be available to the group at a lower effective interest rate than will be payable in respect of a further issue of sterling notes. However, listed debt securities offer greater flexibility than borrowings from development institutions. Accordingly, the directors and the issuer have concluded that the group should proceed with an issue of further sterling notes.

The directors intend to continue discussions with development institutions who have indicated interest in lending to the group. If, as may well prove the case, further expansion of the group or other circumstances create a need for the group to seek further debt funding, the directors will consider meeting that funding requirement with debt raised from development institutions.

**3. Use of proceeds**

All proceeds of issue of the further notes will be used by the group in meeting the costs of the issue and in funding development expenditure incurred by the group.

Because CPO is priced in dollars and many of the groups operational costs are incurred in dollars, the directors regard the dollar as the functional currency of the group. Accordingly, the directors intend to hedge the sterling dollar exposure that will result from the issue of the further notes by a sterling dollar currency swap provided that such swap can be arranged on terms that the directors consider commercial.

**4. The issuer**

The issuer is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands with its corporate seat in Amsterdam, with trade register number 34259527, and was established as a wholly owned subsidiary of the company for the purposes of the issue of the original notes.

The existing indebtedness of the issuer comprises the £22,000,000 nominal of original notes and a loan of \$30,500,000 from the company. These loans are matched by loans in equal amounts owed by REA Kaltim to the issuer. In addition, the issuer has made a further loan of £385,000 to REA Kaltim, funded from the issuer's paid in capital. The loans owed by REA Kaltim to the issuer represent substantially the whole of the issuer's existing assets.

Pursuant to the agreement summarised at contract (10) under "Material contracts" in Part IX below, the company has agreed that, upon completion of the issue of the initial tranche of the further notes, it will lend a further \$6,000,000 to the issuer. The proceeds of that loan, together with the gross proceeds of issue of the initial tranche of the further notes, will then be on-lent to REA Kaltim and/or other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit. The gross proceeds of any subsequent issues of further notes will also be on-lent by the issuer to such subsidiaries.

The terms of the issuer's existing loans to REA Kaltim and of its proposed additional loans to REA Kaltim and other Indonesian subsidiaries of the company are described under "Loans from the issuer to Indonesian debtor subsidiaries" below. The existing loan of \$30,500,000 from the company to the issuer is governed by the agreement summarised at contract (4) under "Material contracts" in Part IX below. Pursuant to the agreement relating to the further loan of \$6,000,000 referred to above, the aggregate indebtedness of the issuer to the company following the advance of that further loan will be consolidated as one unsecured loan of \$36,500,000, bearing interest at a floating rate equal to 2.75 per cent per annum above the Singapore Inter Bank Offered Rate from time to time and be repayable as and when the cash requirements and covenant obligation of the issuer so permit and in any event on 31 December 2017 (being the same terms as currently apply to the existing loan of \$30,500,000).

#### 5. Details of the sterling notes

The issuer currently has in issue £22,000,000 nominal of sterling notes. The £28,000,000 nominal of further notes now proposed to be issued will rank *pari passu* with and form a single series with the original notes and will be issued by the issuer and unconditionally and irrevocably guaranteed by the company. All proceeds from the issue of sterling notes have been or will be applied in making loans to REA Kaltim and other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit. All costs and expenses incurred in connection with the issue of the sterling notes have been or will be recharged to the Indonesian debtor subsidiaries .

Under the terms of the amended and restated trust deed, the sterling notes will be secured by way of first charge over all cash balances held from time to time by the issuer at bank and all rights of the issuer in respect of all monies owed from time to time to the issuer by the Indonesian subsidiaries of the company to which the issuer has made loans. The issuer will be obliged to procure that at all times the aggregate principal amount of the loans due by the Indonesian debtor subsidiaries to the issuer does not fall below whichever is the greater of:

- 1½ times the nominal amount of non cash collateralised sterling notes outstanding (meaning for this purpose the principal amount of the sterling notes outstanding less cash balances held by the issuer at bank on the day of valuation); and
- £10,000,000

and, for these purposes, cash balances and loans by the issuer to the Indonesian debtor subsidiaries shall be valued at face value, with any cash balances not retained in sterling translated to sterling at the relevant spot rates on the day of valuation and any loans by the issuer to Indonesian debtor subsidiaries not made in sterling translated to sterling at the spot rate on the date on which the loan was advanced (or, in the case of the loans of \$30,500,000 to REA Kaltim assigned by the company to the issuer on 4 December 2006, at the rate of £1=\$1.98147).

Under the terms of the amended and restated trust deed, the company will be obliged to procure that the combined external borrowings of the Indonesian debtor subsidiaries and the issuer do not exceed an agreed limit. That limit will be whichever is the higher of (i) 2½ times the earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for the immediately preceding financial period for which audited consolidated financial statements of the company have been prepared (expressed in dollars and calculated using figures derived from the consolidation schedules used to prepare those statements) and (ii) the borrowing limit applicable during such preceding financial period. Accordingly, the limit for 2008 is \$114,402,000 (being 2½ times the earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for 2007).

Should the company change its accounting reference date to 28 February (as the directors are currently contemplating that it may do), the earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for the first financial period of the company with a 28 February period end (being a 14 month period) will, for the purposes of calculating the limit on the combined external borrowing of the issuer and the Indonesian debtor subsidiaries, be deemed to be 12/14ths of the actual earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for such financial period.

In applying the limit on the combined borrowings of the issuer and the Indonesian debtor subsidiaries (as more particularly described in condition 11 in Part V below), borrowings will be taken to exclude (i) monies owed by the issuer to the company or any subsidiary of the company; (ii) monies owed by the Indonesian debtor subsidiaries to the issuer and each other; and (iii) external borrowings of up to \$10,000,000 incurred for the purposes of repaying then existing external borrowings provided that the monies so borrowed are applied within 18 months in making the proposed repayment. All other borrowings of the issuer and the Indonesian debtor subsidiaries will be taken into account (including the principal amount of the sterling notes, converted into dollars at the spot rates applicable on the dates on which the issues of such notes became or become unconditional) but the total of such borrowings will be calculated net of the aggregate amount of the cash balances held by the issuer and the Indonesian debtor subsidiaries.

Subject always to the restrictions on the use of such monies contained in, and to continued compliance with the covenants imposed by, the amended and restated trust deed, the issuer will be free to withdraw monies from its charged bank accounts and to receive and retain and/or expend monies received in respect of its loans to the Indonesian debtor subsidiaries. In particular, where monies lent by the issuer to the Indonesian debtor subsidiaries are subsequently repaid, the issuer may utilise the repayment proceeds in making further or new loans to REA Kaltim and other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit.

Whilst the sterling notes will be secured on assets of the issuer as described above, loans owed by the Indonesian debtor subsidiaries to the issuer will be unsecured obligations of such Indonesian debtor subsidiaries. Within the permitted limit on the combined external borrowings of the issuer and the Indonesian debtor subsidiaries referred to above, the Indonesian debtor subsidiaries will be free to continue and/or enter into new external borrowing arrangements that are secured but subject to an overall limit on the combined total of such secured external borrowings of \$55,000,000. The issuer will not be permitted to create security over its assets (save for the security described above in relation to the sterling notes).

Under the terms of the amended and restated trust deed, the company will be obliged to procure that the Indonesian debtor subsidiaries do not incur any intra-group borrowings other than borrowings from each other and from the issuer but will be under no obligation to restrict the amount of such borrowings or the amount of intra-group borrowings by the issuer. The company will also be obliged to restrict, to an extent, the divestment of fixed assets by the Indonesian debtor subsidiaries as more particularly described in Condition 12(A)(xv) in Part V below.

If any person or group of persons acting in concert acquires shares in the company carrying more than 50 per cent of the votes which may generally be cast at general meetings of the company, each holder of sterling notes will have the right to require that the sterling notes held by such holder be repaid at 101 per cent of par together with accrued interest.

As stated above, the issuer is a limited liability company. Accordingly, to the extent that the issuer's assets (including its cash balances and its rights under the loans made by it to the Indonesian debtor subsidiaries) are insufficient to meet its obligations under the sterling notes, and the assets of the company (as guarantor of the sterling notes) are insufficient to enable it to meet its obligations as respects that guarantee, holders of the sterling notes will have no further recourse.

In consideration of the company guaranteeing the issuer's obligations under the sterling notes, the issuer has agreed to pay the company a fee equal to 0.75 per cent per annum of the nominal amount of the sterling notes outstanding from time to time. This fee is, and will continue to be, reflected in the margin payable by REA Kaltim and the other Indonesian debtor subsidiaries in respect of the loans made or to be made by the issuer to those subsidiaries out of the proceeds of issue of the sterling notes (as further detailed under "Loans from the issuer to Indonesian debtor subsidiaries" below) and will thereby, in effect, be on-charged by the issuer to the Indonesian debtor subsidiaries.

- 6. Provisions concerning the Netherlands** The sterling notes have been structured so as to ensure that the issuer fulfils, and will continue to fulfil, the requirements of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) as amended from time to time. These requirements include, but are not limited to, the requirement that (i) the sterling notes are issued in compliance with the Dutch Financial Supervision Act, (ii) at least 95 per cent of the balance sheet total of the issuer is on-lent within the group, (iii) the company provides an unconditional and irrevocable guarantee in respect of the obligations of the issuer and (iv) the company has positive consolidated equity capital during the full term of its guarantee of the sterling notes. As a result of the above, the issuer will not be required to obtain a license from the Dutch Central Bank (*De Nederlandsche Bank N.V.*) to carry on business as a credit institution within the meaning of the Dutch Financial Supervision Act.

The Dutch Central Bank may elect to appoint the issuer as a reporter, pursuant to the Regulation of 4 February 2003, issued by the Dutch Central Bank, implementing reporting instructions under the Dutch Act on Financial Foreign Relations 1994 (*Wet financiële betrekkingen buitenland 1994*). If so appointed, the issuer will be obliged to file reports with the Dutch Central Bank for the purposes of the composition of the balance of payments for the Netherlands as drawn up by the Dutch Central Bank.

- 7. Loans from the issuer to Indonesian debtor subsidiaries** As explained under "Details of the sterling notes" above, under the terms of the amended and restated trust deed, the security for the sterling notes will principally comprise a first charge over all rights of the issuer in respect of the loans made by the issuer to the Indonesian debtor subsidiaries. As noted under "The issuer" above, the loans currently made by the issuer consist entirely of loans to REA Kaltim but, upon completion of the issue of the initial tranche of the further notes, additional loans may be made not only to REA Kaltim but also to other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit.

The outstanding loans currently owed by REA Kaltim to the issuer comprise two dollar denominated loans, one of \$20,000,000 and the other of \$10,500,000, and two sterling denominated loans, one of £22,000,000 and the other of £385,000. These loans are all governed by the REA Kaltim loan agreement.

Both dollar denominated loans are unsecured obligations of REA Kaltim and bear interest at a floating rate equal to an agreed margin (as defined in the REA Kaltim loan agreement (the "applicable margin")) plus 2.75 per cent over Singapore Inter Bank Offered Rate. The \$20,000,000 loan is repayable at par in one bullet payment on 31 December 2017 and the \$10,500,000 loan is repayable at par by one or more instalments as rapidly as the cash resources available to REA Kaltim permit (but subject to due compliance by REA Kaltim with any applicable banking or other loan covenants and to appropriate provision for the financing of REA Kaltim's planned extension development programme) and in any event on 31 December 2017.

Both sterling denominated loans are unsecured obligations of REA Kaltim. The £22,000,000 loan bears interest at a fixed rate per annum equal to the applicable margin plus 10.25 per cent per annum and is repayable at par by three equal annual instalments commencing 31 December 2015. The £385,000 loan bears interest at a fixed rate per annum equal to the applicable margin plus 9.5 per cent per annum and is repayable at par in one bullet payment on 31 December 2017.

The additional loans to be made by the issuer to REA Kaltim and/or other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or processing of oil palm fruit following completion of the issue of the initial tranche of the further notes will comprise a dollar denominated loan of \$6,000,000 and a sterling denominated loan of an aggregate principal amount equal to the nominal amount of the further notes issued. The dollar denominated loan will be an unsecured obligation of the relevant Indonesian debtor subsidiary, will bear interest at a floating rate equal to the applicable margin plus 2.75 per cent over Singapore Inter Bank Offered Rate and will be repayable at par in one bullet payment on 31 December 2017. The sterling denominated loan will be an unsecured obligation of the relevant Indonesian debtor subsidiary, will bear interest at a fixed rate per annum equal to the applicable margin plus 10.25 per cent per annum and will be repayable at par by three equal annual instalments commencing 31 December 2015.

Subsequent further loans by the issuer to subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit will be unsecured obligations of the applicable subsidiaries and will otherwise be on terms that will be dependent upon the method by which the issuer funds such loans as follows:

- where a loan is funded from the proceeds of issue of sterling notes, it will be denominated in sterling, will be treated as being of principal amount equal to the par value of the further notes from which it is funded, will bear interest at the applicable margin plus 10.25 per cent and will be repayable by three equal annual instalments commencing on 31 December 2015;
- where a loan is funded from the proceeds of other new borrowings by the issuer ("funding borrowings"), it will be denominated in the currency of the funding borrowings, will bear interest at the applicable margin plus the rate applicable to the funding borrowings (plus where the borrowings are guaranteed, any guarantee fee payable by the issuer in respect of such guarantee) and will be repayable at such premium or discount (if any) applicable on repayment of the funding borrowings (or otherwise at par) and in accordance with a schedule or in one bullet payment that matches the repayment terms applicable to the funding borrowings;
- where a loan is funded from the proceeds of repayment or prepayment of a loan by the issuer to any qualifying subsidiary (a "predecessor loan"), it will be denominated in the currency of the predecessor loan, will bear interest at the applicable margin plus the rate payable in respect of the predecessor loan (excluding such part of such rate as was attributable to the applicable margin but including such part (if any) as was attributable to any guarantee fee) and will be repayable at par (i) where repayment of the predecessor loan was accelerated or the predecessor loan was prepaid, in accordance with a schedule or in one bullet payment that matches the repayment terms applicable to the predecessor loan or (ii) where the predecessor loan was repaid in accordance with its terms on the due repayment date, on 31 December 2017; and
- in all other cases, such loans will be denominated in sterling, will bear interest at a fixed rate equal to the applicable margin plus 9.5 per cent and will be repayable at par in one bullet repayment on 31 December 2017.

All existing and prospective loans from the issuer to REA Kaltim and other Indonesian debtor subsidiaries permit, or will permit, prepayment at the option of the applicable Indonesian debtor subsidiary.

Pursuant to the agreement (the "consortium loan agreement") governing the Indonesian consortium loan facilities currently enjoyed by REA Kaltim, as summarised at contract (1) under "Material contracts" in Part IX below, REA Kaltim has undertaken to the banks providing those facilities (the "consortium banks") that it will not incur intra-group indebtedness in the nature of borrowings unless the provider of such indebtedness has agreed that its rights as respects such indebtedness are subordinated to the rights of the consortium banks as respects the consortium loan agreement. The issuer has agreed, pursuant to the subordination deed summarised at contract (8) under "Material contracts" in Part IX below, that its rights as regards all loans owed to it by REA Kaltim be subordinated to the rights of the consortium banks as respects the consortium loan agreement. Such subordination arrangements have the effect that, for so long as indebtedness under the consortium loan agreement remains outstanding, the issuer is prevented from taking steps to enforce recovery of amounts due as regards its loans to REA Kaltim.

To enable REA Kaltim and other Indonesian debtor subsidiaries to borrow further monies in Indonesia or elsewhere (other than intra-group), the terms of the amended and restated trust deed will permit the issuer, if so required by other lenders to such subsidiaries, to agree to further subordination arrangements with such lenders but only as respects loans which fall due for repayment before the sterling notes. The amended and restated trust deed will also permit the issuer to agree subordination arrangements with any counterparty to a derivative financial instrument established by an Indonesian debtor subsidiary providing a hedge against dollars (the functional currency of the group) of sterling indebtedness owed to the issuer by the applicable Indonesian debtor subsidiary.

- 8. Group borrowing policy** 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, they consider that a level below 100 per cent of total equity is appropriate to the group at its present stage of development.
- At 31 December 2007, net debt represented 35.0 per cent of total equity (2006: 57.4 per cent).
- 9. Pricing and yield** Interest on the initial tranche of the further notes payable on 31 December 2008 will be calculated as if it had accrued with effect from 1 July 2008. Assuming that such notes are issued on 22 August 2008, the interest deemed to have accrued up to that date will amount to £1.3682 per £100 nominal of notes. Net of such deemed accrual the issue price of the notes would amount to 98.50 per cent of par (the "clean price").
- The redemption yield on the notes comprised in the initial tranche of further notes, expressed as a percentage of the clean price, is 9.76 per cent per annum.
- 10. Overseas investors in the further notes**
- (A) United States
- The further notes have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act"). Accordingly, the further notes may not be offered or sold within the United States or to or for the account or benefit of any US persons, except in certain transactions that are exempt from the registration requirements of the Securities Act. Further notes that are originally issued to investors in the United States or to or for the account or benefit of a US person may not be reoffered, resold or otherwise transferred in the United States, but may only be reoffered, resold or otherwise transferred outside the United States in a transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act ("Regulation S"). Terms used in this paragraph have the meaning given to them by Regulation S.
- Any US subscriber for further notes will be required to execute an investor letter in a form approved and provided by the issuer setting forth certain restrictions and procedures regarding the further notes and containing certain representations, warranties, acknowledgements and agreements by such subscriber.
- Until 40 days after the commencement of any offer of the further notes, an offer, sale or transfer of further notes within the United States by a dealer (whether or not participating in the offer of the further notes) may violate the registration requirements of the Securities Act.
- (B) The Netherlands
- The sterling notes may only be offered, directly or indirectly, to individuals or legal entities who qualify as qualified investors within the meaning of section 5:2 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) or otherwise to less than 100 persons established or residing in the Netherlands (excluding, for the purposes of calculating such 100 persons, any such qualified investors as referred to above).
- (C) General
- No action has been taken by the issuer or the company in any jurisdiction (other than in the UK) that would permit, or is intended to permit, an offering of any of the further notes or the possession or distribution of this document or any amendment or supplement hereto or any other offering material relating to the further notes in any country or jurisdiction where any such action for that purpose is required.
- Accordingly, the further notes may not be offered or sold, directly or indirectly, in connection with the issue of the initial tranche or any further tranches of, or any secondary trading in, the further notes and neither this document nor any other offering material may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.
- 11. ISIN** The International Security Identification Number assigned to the sterling notes is GB00B1FWDD12.

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## **PART V. TERMS AND CONDITIONS OF THE STERLING NOTES**

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The terms and conditions applicable to the sterling notes under the trust deed will be in the form set out below.

"The £50,000,000 9.5 per cent guaranteed sterling notes 2015/17 (the "**Notes**", which expression shall in these terms and conditions (the "**Conditions**"), unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of REA Finance B.V. (the "**Issuer**") are constituted by a trust deed (the "**Trust Deed**") dated 1 December 2006 as supplemented by a first supplemental trust deed dated 6 August 2007 and as amended and restated on [*date of execution*] made between the Issuer, R.E.A. Holdings plc (the "**Guarantor**") and Capita Trust Company Limited (the "**Trustee**") as trustee for the holders of the Notes (the "**Noteholders**"). The issue of the Notes was authorised pursuant to resolutions of the board of directors of the Guarantor passed on 8 November 2006 and 23 July 2008 and resolutions of the sole managing director of the Issuer passed on 27 November 2006 and 29 July 2008. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed are available for inspection during normal business hours by the Noteholders at the principal office for the time being of the Trustee, being as at the date of issue of this certificate at [*7<sup>th</sup> Floor, Phoenix House, 18 King William Street, London EC4N 7HE*]. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

### **1. Definitions**

In these Conditions, except to the extent that the context otherwise requires:

"**business day**" means a day (other than a Saturday or a Sunday) on which banks are generally open for business in the City of London, in Amsterdam and in Jakarta;

"**Indonesian Debtor Subsidiary**" means any Qualifying Subsidiary which is indebted to the Issuer (for so long as it is so indebted);

"**Extraordinary Resolution**" means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in schedule 3 to the Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded then by a majority consisting of not less than three-fourths of the votes given on such a poll;

"**Interest Payment Date**" means 30 June and 31 December in each year;

"**Interest Period**" means the period commencing on (and including) the date of issue of the relevant notes and ending on (and including), as respects Notes issued on or prior to 30 June 2007, that date and, as respects all other Notes, the next following Interest Payment Date and thereafter each successive period commencing on (and including) the day following an Interest Payment Date and ending on (and including) the next following Interest Payment Date;

"**Prescribed Loan Agreement**" means any loan agreement made between the Issuer and any Qualifying Subsidiary pursuant to which the Issuer lends monies to such subsidiary (as amended and/or restated from time to time with the sanction of the Noteholders);

"**Prescribed Terms**" means

- (i) as respects any loan by the Issuer to REA Kaltim, the terms set out in the REA Kaltim loan agreement; and
- (ii) as respects any loan by the Issuer to any other Qualifying Subsidiary, on the terms set out in the pro forma loan agreement included at schedule 5 to the Trust Deed, subject to any amendment(s) to which the Trustee has agreed in writing (which agreement the Trustee shall not withhold where the Guarantor has certified (by way of providing a certificate signed by two directors of the Guarantor on behalf of the Guarantor) that (i) the amendment(s) is/are necessary as a consequence of any change in a law, regulation or other legal requirement on or after the date of the

Trust Deed and (ii) the amendment(s) is/are not materially adverse or detrimental to the security for the Notes);

**"Qualifying Subsidiary"** means any subsidiary of the Guarantor incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit;

**"REA Kaltim"** means PT REA Kaltim Plantations, a subsidiary of the Guarantor incorporated in Indonesia and engaged in the cultivation of oil palms and the processing of oil palm fruit;

**"REA Kaltim loan agreement"** means the agreement as to amended and re-stated loan terms and ongoing loan agreement dated 16 August 2007 and made between (1) the Issuer, (2) REA Kaltim and (3) the Guarantor (as amended and/or re-stated from time to time with the sanction of the Noteholders);

**"Redemption Date"** means 31 December in each of the three years commencing 31 December 2015;

**"relevant spot rate"** means, for any day, the spot rate shown by the Financial Times of that day as the closing spot rate on the preceding business day or, if the board of directors of the Guarantor so elects, the spot rate in London quoted at or about 11.00 am on that day (or on the preceding business day) by a London clearing bank, approved by the board of directors of the Guarantor, as being the rate for the purchase by the Issuer or an Indonesian Debtor Subsidiary (as the case requires) of sterling or dollars (as applicable) for the currency and amount in question; and

**"subsidiary"** has the meaning given thereto in section 1159 of the Companies Act 2006 of the United Kingdom.

References to **"dollars"** or to **"\$"** are to the lawful currency of the United States of America. References to **"sterling"** or to **"£"** are to the lawful currency of the United Kingdom.

## 2. Form, status and transfer

### (A) Form and denomination

The Notes are issued in registered form in amounts and integral multiples of £1,000.

The Issuer, the Guarantor and the Trustee may (to the fullest extent permitted by applicable law) deem and treat the registered holder of any Notes as the absolute owner for all purposes, notwithstanding any notice to the contrary, including any notice of ownership, trust or any interest in it and no person shall be liable for so treating the registered holder.

### (B) Status

The Notes are direct and unconditional secured obligations of the Issuer and rank equally and without any preference among themselves.

### (C) Transfer

The Notes are transferable in amounts or integral multiples of £1,000 by transfer by instrument in writing in the usual common form applicable to United Kingdom securities or in any other form which the board of managing directors (or, if applicable, the sole managing director) of the Issuer may approve.

In the case of Notes held in uncertificated form, title to the Notes may be transferred by means of a relevant system (as defined in the Uncertificated Securities Regulations 2001 (the **"Regulations"**)), in which event, the Conditions shall not apply to the Notes to the extent that they are inconsistent with:

- (i) the holding of Notes in uncertificated form;
- (ii) the transfer of title to the Notes by means of a relevant system;
- (iii) any provision of the Regulations,

and the provisions of the Regulations shall apply in respect of the Notes and these Conditions.

- 3. Use of proceeds** The proceeds of issue of the Notes shall be receivable by the Issuer and shall be applied solely in meeting the expenses of the issue of the same and in making loans to any Qualifying Subsidiary provided that the Issuer and such subsidiary shall have first entered into a loan agreement in respect of such loan on the Prescribed Terms. Pending the making of any such loans as are referred to above, the Issuer shall retain the proceeds of issue of the Notes (net of any expenses of the issue of the same) on deposit with Fortis Bank (Netherlands) N.V. or such other bank or banks as the Trustee may from time to time approve (in accordance with Condition 12(B)(v)).
- Any monies lent by the Issuer to a Qualifying Subsidiary as provided above and subsequently repaid shall be available for use by the Issuer, at its discretion:
- (i) in meeting its costs and expenses incurred in the ordinary course of its business;
  - (ii) in making one or more cash deposits with Fortis Bank (Netherlands) N.V. or such other bank or banks as the Trustee may from time to time approve (in accordance with Condition 12(B)(v));
  - (iii) in making one or more loans to any Qualifying Subsidiary on the Prescribed Terms;
  - (iv) in repaying amounts owed to the Guarantor;
  - (v) in making one or more loans to the Guarantor on such terms as may be agreed from time to time between the Issuer and the Guarantor; and/or
  - (vi) in paying interest and dividends,
- subject in all cases to due compliance by the Issuer with all covenants under the Trust Deed (including these Conditions).
- 4. Guarantee** The payment of interest and principal and any other monies payable by the Issuer on or in respect of the Notes is irrevocably and unconditionally guaranteed by the Guarantor. The full terms of the guarantee are set out in the Trust Deed.
- The obligations of the Guarantor in respect of such guarantee are unsubordinated and unsecured and, except as may be provided by applicable legislation or judicial order, will rank equally and without preference with all other unsecured and unsubordinated obligations of the Guarantor.
- Any demand under such guarantee must be in writing, signed by the Trustee and received by the Guarantor at its address for service of notices in accordance with Condition 18 on or before 28 February 2018 or, if earlier, in the event of the Trustee giving valid notice under Condition 10 to the Issuer and the Guarantor that the Notes are, in accordance with Condition 10, due and payable, on or before the expiry of three months from the date of the said notice from the Trustee.
- 5. Security** Payment of interest and principal and all other monies payable by the Issuer on or in respect of the Notes is (or will be) secured by way of a first charge in favour of the Trustee (on behalf of Noteholders) over:
- (i) the bank account(s) of the Issuer; and
  - (ii) the Issuer's rights in respect of all monies owed to it from time to time by any Indonesian Debtor Subsidiary.
- 6. Interest** The Issuer shall pay interest on the principal amount of the Notes at the rate of 9.5 per cent per annum payable semi-annually in arrear in equal instalments on each Interest Payment Date to those persons who are registered as Noteholders at the close of business on the relevant record date (notwithstanding any intermediate transfer or transmission of any Notes), save that in respect of the first Interest Period following the date of issue of any tranche of Notes issued after 30 June 2007, interest will be calculated and paid as if interest had accrued (at the rate of 9.5 per cent per annum) on the Notes comprised in that tranche with effect from (and including) the day following the most recent Interest Payment Date. For this purpose, the "**record date**" shall mean the thirtieth day before the relevant Interest Payment Date or, if such day is not a business day, then the next following business day. Each Note will cease to bear interest from (and including) the due date for redemption unless payment of principal in respect of the Note is improperly withheld or refused.

If it should be necessary to compute an amount of interest in respect of any Notes for a period shorter than a complete Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the day following the most recent Interest Payment Date to (and including) the final day of the relevant period divided by the actual number of days in the period from (and including) the day following the most recent Interest Payment Date to (and including) the next Interest Payment Date.

Interest will be paid in sterling.

**7. Redemption, purchases and cancellation**

(A) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, the Issuer shall redeem the Notes in sterling at their principal amount by three (as nearly as possible) equal annual instalments commencing 31 December 2015. If Notes are purchased and cancelled by the Issuer, the amount of Notes that the Issuer will be obliged to redeem on any given redemption date will be reduced by the nominal amount of Notes purchased and cancelled prior to that redemption date (save in so far as such Notes were purchased and cancelled prior to a previous redemption date and taken into account in reducing the amount of Notes otherwise due to be redeemed in relation to that redemption date). Redemptions will be made *pro rata* to holdings with the amount to be applied in redemption of each holding being rounded down to the nearest integral multiple of £1,000 and then utilised to redeem in full an appropriate proportion of the Notes comprised in that holding.

(B) Purchases

The Issuer, any parent company of the Issuer (including the Guarantor) and any subsidiary of the Issuer or of the Guarantor may at any time purchase Notes in any manner and at any price.

(C) Cancellation

All Notes redeemed or purchased by the Issuer will be cancelled forthwith and such Notes may not be reissued. Notes purchased by any subsidiary of the Issuer, or by the Guarantor or any subsidiary of the Guarantor (other than the Issuer) may be held and/or resold.

**8. Payments, unclaimed monies and prescription**

Any interest, principal and other monies payable by the Issuer, the Guarantor or the Trustee on or in respect of the Notes shall be paid by cheque made payable to the order of and sent through the post to the registered address of the holder or person entitled thereto or in the case of joint holders made payable to the order of and sent through the post to the registered address of that one of the joint holders who is first named in the register in respect of the Notes or made payable to the order of such person and sent to such address as the holder or joint holders may in writing direct. Payment of any such cheque shall be a satisfaction of the monies represented thereby. Every such cheque shall be sent at the risk of the person(s) entitled to the monies represented thereby. If several persons are entered in the register as joint holders of any Notes, then without prejudice to the foregoing provisions of this Condition 8, the payment to any of such persons of the monies in question shall be as effective a discharge to the Issuer, the Guarantor and the Trustee as if the person to whom the payment is made was the sole registered holder of such Notes.

If any monies should remain due to any Noteholder in respect of any Notes after the due date because any cheque in respect of such monies has not been presented, then after the expiry of six months from such due date (or at such earlier time as the Trustee may agree), the Issuer or the Guarantor (as applicable) may pay to the Trustee the amount due to such Noteholder and upon such payment being made the interest due or the Notes which the Issuer is ready to redeem (as the case may be) shall be deemed to have been paid or redeemed. The Trustee shall place any such monies so received by it on deposit in the name of the Trustee in such bank as it may think fit and thereafter the Trustee shall not be responsible for the safe custody of such monies or for interest thereon. Any payment made to the Trustee as described in this Condition 8 shall be held by the Trustee on trust for the holder of the relevant Notes provided that the Trustee may amalgamate any such monies with any other monies for the time being held by the Trustee for which it is accountable to any other Noteholder or to the holders of any stock or security (whether or not of the Issuer) for which it is or was the trustee under provisions

equivalent to or similar to these provisions. Any monies which remain unclaimed after ten years (in the case of principal) or five years (in the case of interest), and any interest thereon, will be forfeit and will revert to the Issuer.

## 9. Taxation

All payments of interest and principal and any other monies payable by the Issuer or the Guarantor on or in respect of the Notes will be made free and clear of, and without withholding of or deduction for, or on account of, any taxes imposed or levied by the Netherlands or the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes is required by law.

## 10. Events of default and change of control

### (A) Events of Default

The Trustee at its discretion may and, if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject in each case to being indemnified and/or secured to its satisfaction) (but, in the case of the happening of any of the events mentioned in sub-paragraphs (ii), (iii), (vi), (viii) or (ix) below, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the Issuer and the Guarantor that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest, in any of the following events (each an "**Event of Default**"):

- (i) if default should be made in the payment on the due date of any principal monies or for a period of 14 days in the payment of any interest which ought to be paid in accordance with these Conditions;
- (ii) if default should be made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision binding on it under the Trust Deed or the Notes (other than a covenant, condition or provision for payment of principal or interest) and (except in circumstances where the Trustee certifies that delay would in its opinion place the interests of the Noteholders in jeopardy) the same (if capable of remedy) is not remedied to the satisfaction of the Trustee within one calendar month after notice in writing of such default has been given to the Issuer or the Guarantor (as applicable) by the Trustee;
- (iii) if the Issuer or the Guarantor should stop or threaten by notice to its creditors generally to stop payment of its debts generally or if the Issuer or the Guarantor should cease or threaten to cease to carry on business or substantially the whole of its business;
- (iv) if:
  - (I) the Issuer should be unable to pay its debts within the meaning of section 1 of the Dutch Insolvency Act (*Faillissementswet*) or section 123 of the Insolvency Act 1986,
  - (II) the Issuer has been granted suspension of payments (*surseance van betaling*) on a temporary basis or otherwise (within the meaning of section 214 of the Dutch Insolvency Act), or has become subject to any other similar regulation (including but not limited to emergency proceedings (*noodregeling*)), or has, wholly or partly, lost the free management or disposal of its property in any other way, the foregoing irrespective of whether that situation is irrevocable, or
  - (III) the Issuer should propose to its creditors any composition as regards the debts owed by the Issuer to them, whether under the laws of the Netherlands or elsewhere and whether within or outside the scope of the insolvency proceedings referred to under (II);
- (v) if:
  - (I) the Guarantor should be unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 of the United Kingdom, or
  - (II) any voluntary arrangement should be proposed under section 1 of the Insolvency Act 1986 of the United Kingdom in respect of the Guarantor;

- (vi) if any indebtedness in the nature of borrowings of the Guarantor should become repayable by reason of default by the Guarantor or if any guarantee or indemnity given by the Guarantor is not honoured when due and called upon and, in either case, steps are taken to enforce payment;
- (vii) if an order should be made or a resolution passed for the winding up of the Issuer or the Guarantor (except for a voluntary members' winding up approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders);
- (viii) if any security interest created by the Guarantor, the Issuer or any Indonesian Debtor Subsidiary, other than any customary retention of title provision, should become enforceable and steps are taken to enforce the same;
- (ix) if any Indonesian Debtor Subsidiary should incur or have outstanding for more than 10 business days following the date on which it becomes an Indonesian Debtor Subsidiary any indebtedness in the nature of borrowings owed to the Guarantor or any of its subsidiaries (other than the Issuer or any other Indonesian Debtor Subsidiary); or
- (x) if the Guarantor should cease to be the owner (directly or indirectly) of more than 50 per cent of the issued ordinary share capital of any Indonesian Debtor Subsidiary.

(B) Change of control of the Guarantor

If any person (or group of persons acting in concert within the meaning of The City Code on Takeovers and Mergers of the United Kingdom) should obtain the right to exercise more than 50 per cent of the votes which may generally be cast at a general meeting of the Guarantor, the Guarantor shall promptly give notice of such event (a "**change of control**"). Each Noteholder at its discretion may, following a change of control, give notice to the Issuer and the Guarantor that the Notes held by that Noteholder are, and they shall accordingly forthwith become, immediately due and repayable at an amount equal to 101 per cent of their principal amount, together with accrued interest provided that any such notice to the Issuer and the Guarantor shall only be effective if received by the Guarantor prior to the expiry of 60 days from the date of the notification by the Guarantor as to the change of control as referred to above.

**11. Limitation on borrowing**

For so long as any of the Notes remain outstanding, except with the sanction of an Extraordinary Resolution of the Noteholders, the combined Borrowings (as defined below) of the Issuer and the Indonesian Debtor Subsidiaries shall not, at any time, exceed an amount equal to 2.5 times the earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for the preceding financial period) (expressed in dollars and calculated using figures derived from the consolidation schedules used to prepare the audited consolidated financial statements of the Guarantor for the relevant financial period) or, if more, the limit on the combined Borrowings of the Issuer and the Indonesian Debtor Subsidiaries applicable for the previous financial period (such amount being the "**Permitted Maximum**").

For these purposes, "**Borrowings**" means:

- (a) all indebtedness in the nature of borrowings owed by the Issuer to any person other than to the Guarantor or any Indonesian Debtor Subsidiary, net of any cash balances deposited at a bank in the name of the Issuer; and
- (b) all indebtedness in the nature of borrowings owed by the Indonesian Debtor Subsidiaries other than indebtedness in the nature of borrowings owed to the Issuer or owed by one Indonesian Debtor Subsidiary to another, net of any cash balances deposited at a bank in the name of an Indonesian Debtor Subsidiary;

and "**indebtedness in the nature of borrowings owed by the Indonesian Debtor Subsidiaries**" includes:

- (I) the principal amount raised by any Indonesian Debtor Subsidiary by acceptances or under any acceptance credit opened on its behalf by any bank or accepting house other than acceptances relating to the purchase of goods in the ordinary course of trading and outstanding for not more than ninety days;
- (II) the principal amount outstanding in respect of any finance leases entered into by any Indonesian Debtor Subsidiary; and

(III) save where the principal obligor is another Indonesian Debtor Subsidiary, the principal amount of any monies borrowed or other indebtedness, the redemption or repayment of which is guaranteed or secured by, or is the subject of an indemnity given by, any Indonesian Debtor Subsidiary

but Borrowings shall not include amounts not exceeding \$10,000,000 in aggregate of:

- (A) any monies borrowed by the Issuer and advanced to any Indonesian Debtor Subsidiary for the purposes of financing repayment by that Indonesian Debtor Subsidiary of the whole or any part (with or without premium) of any monies borrowed by that Indonesian Debtor Subsidiary then outstanding and so to be applied by that Indonesian Debtor Subsidiary within eighteen months of being so advanced by the Issuer to that Indonesian Debtor Subsidiary; or
- (B) any monies borrowed by any Indonesian Debtor Subsidiary for the purpose of repaying the whole or any part (with or without premium) of any monies borrowed by that Indonesian Debtor Subsidiary then outstanding and so to be applied by that Indonesian Debtor Subsidiary within eighteen months of being so borrowed

pending their application for such purpose within such periods (as to which, a certificate as to the purpose of the borrowing in question signed by any two directors of the Guarantor on behalf of the Guarantor shall be conclusive evidence as to such purpose for the purposes of this Condition 11).

Where the amount of any indebtedness required to be taken into account for the purposes of this Condition 11 is denominated or repayable (or repayable at the option of any person other than the Issuer or an Indonesian Debtor Subsidiary) in a currency other than dollars, such amount shall be translated, for the purpose of calculating the dollar equivalent, at the relevant spot rate on the day in question (provided that the "day in question", for the purposes of the Notes, shall be taken to be the date on which the issue of the relevant Notes becomes unconditional).

A certificate or report by the auditors for the time being of the Guarantor as to the amount of the Permitted Maximum referred to above in this Condition 11 and/or the aggregate amount of the combined Borrowings of the Issuer and the Indonesian Debtor Subsidiaries at any time shall be conclusive evidence of such amount for the purposes of this Condition 11.

For the purposes of this Condition 11, if the Guarantor should change its accounting reference date to 28 February, the earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for the first financial period of the Guarantor with a 28 February period end (being a 14 month period) shall be deemed to be 12/14ths of the actual earnings before interest, tax, depreciation, amortisation and gain or loss on biological assets of REA Kaltim for such financial period.

## **12. Other covenants**

### **(A) Covenants by the Guarantor**

The Guarantor covenants with the Trustee that for so long as any of the Notes remain outstanding it will:

- (i) carry on and conduct its businesses and affairs in a proper and efficient manner and duly comply with all obligations imposed on it by the Companies Act 1985 and/or the Companies Act 2006;
- (ii) keep proper books of account and therein make true and proper entries of all dealings and transactions of and in relation to its business; keep the said books of account and all other documents relating to its affairs at its registered office or such other place or places where such books of account and other documents ought in the ordinary course to be kept and allow the Trustee or any person or persons nominated by the Trustee in writing (not being a person or persons to whom the Guarantor may reasonably object) at all reasonable times to have access to such books of account and other documents to the extent relevant for the purposes of the Notes;
- (iii) give to the Trustee or any person or persons nominated by the Trustee in writing (not being a person or persons to whom the Guarantor may reasonably object) such information as they may reasonably require, in such form as they may reasonably require, as to all matters relating to the business, assets and affairs of the Guarantor and its subsidiaries;

- (iv) furnish to the Trustee two copies of every report, balance sheet, profit and loss account, circular or notice issued to members of the Guarantor, in each case at the same time as the same are despatched to members of the Guarantor;
- (v) send to the Noteholders a copy of (I) the annual report of the Guarantor (incorporating those reports and audited accounts required by law or the rules of the Financial Services Authority to be incorporated therein) and (II) each published interim report of the Guarantor, in each case at the same time as the same are despatched to members of the Guarantor;
- (vi) use its best endeavours (I) to maintain the listing of the Notes on the Official List of the Financial Services Authority and their admission to trading on the London Stock Exchange's regulated market for listed securities (being a regulated market for the purposes of Directive 2004/39/EC (The Markets in Financial Instruments Directive)) or, if it is unable to do so having used such best endeavours or if the maintenance of such listing and admission to trading is agreed by the Trustee to be unduly onerous, use its best endeavours to obtain and maintain the quotation and listing of the Notes on such other stock exchange and by such other listing authority, where applicable, as it may (with the prior written approval of the Trustee) decide and (II) to procure that there will at all times be furnished to any stock exchange and listing authority, where applicable, on which and by which the Notes are for the time being traded and listed, on the application of the Issuer, such information as such stock exchange and listing authority, where applicable, may require in accordance with its normal requirements or in accordance with any arrangements for the time being made with any such stock exchange and listing authority, where applicable;
- (vii) use all reasonable endeavours to procure that its auditors furnish to the Trustee such certificates, reports or other information as the Trustee may from time to time reasonably require and in such form as the Trustee may reasonably require in connection with any calculation or matter arising under the Trust Deed or these Conditions;
- (viii) execute all such further documents and carry out all such further acts and things as may be necessary at any time or times in the opinion of the Trustee to give effect to the provisions of the Trust Deed and these Conditions;
- (ix) give immediate notice in writing to the Trustee upon the Guarantor becoming aware of the happening of any such event as is mentioned in Condition 10;
- (x) deliver to the Trustee (I) within 14 days of request therefor from time to time by the Trustee and (II) without the need for any such demand, within 14 days of the date on which the audited accounts for each financial year of the Guarantor are despatched to the members of the Guarantor (or, if earlier, not later than 180 days after the end of the financial year to which such audited accounts relate) a certificate signed by two directors of the Guarantor on behalf of the Guarantor certifying that, so far as the Guarantor is aware, having made all proper enquiries and except as set out in the relevant certificate, as at the date of such certificate and throughout the period from and including the date of the last such certificate (or, in the case of the first such certificate, the date of the Trust Deed) to and including the date of the certificate (or throughout any other period specified by the Trustee):
  - (a) neither the Guarantor nor the Issuer is, or has been, in breach of the provisions of the Trust Deed; and
  - (b) none of the events specified in Condition 10 has occurred;
- (xi) deliver to the Trustee within 14 days of the date on which the audited accounts for each financial year of the Guarantor are despatched to the members of the Guarantor (or, if earlier, not later than 180 days after the end of the financial year to which such audited accounts relate) a certificate signed by two directors of the Guarantor on behalf of the Guarantor certifying the outstanding amounts of all loans made by the Issuer to (and repaid to the Issuer by) any Qualifying Subsidiary, and of the interest rate and repayment provisions applicable to each such loan, in each case as at the preceding accounting reference date of the Issuer;
- (xii) not change its accounting reference date provided that, on or prior to 31 December 2009, the Guarantor may change its accounting reference date to 28 February;

- (xiii) procure that the borrowing restriction set out in Condition 11 is not breached;
- (xiv) procure that no Indonesian Debtor Subsidiary permits to subsist and/or creates security interest(s) in respect of its assets, other than customary retention of title provisions or any security interest(s) arising by operation of law, such that, at any time while there exist any Indonesian Debtor Subsidiaries, the Indonesian Debtor Subsidiaries together have secured borrowings of more than \$55,000,000 in aggregate;
- (xv) procure that:
  - (I) in any financial period of the Guarantor when the Indonesian Debtor Subsidiaries did not together have, as at the beginning of the relevant financial period, fixed assets with an aggregate book value (expressed in dollars and calculated using figures derived from the consolidation schedules used to prepare the audited consolidated balance sheet of the Guarantor as at the end of the immediately preceding financial period) of more than three times the then Permitted Maximum (as defined in Condition 11), the Indonesian Debtor Subsidiaries do not dispose (whether by way of sale, lease, transfer or otherwise) of fixed assets having an aggregate book value (expressed in dollars and calculated as provided above) of more than \$2,000,000; or
  - (II) in any financial period of the Guarantor when the Indonesian Debtor Subsidiaries together had, as at the beginning of the relevant financial period, fixed assets with an aggregate book value (expressed in dollars and calculated using figures derived from the consolidation schedules used to prepare the audited consolidated balance sheet of the Guarantor as at the end of the immediately preceding financial period) of more than three times the Permitted Maximum (as defined in Condition 11), the Indonesian Debtor Subsidiaries do not dispose (whether by way of sale, lease, transfer or otherwise) of fixed assets having an aggregate book value (expressed in dollars and calculated as provided above) of more than the amount by which the combined book values of the fixed assets of the Indonesian Debtor Subsidiaries as at the beginning of the relevant financial period (expressed in dollars and calculated as provided above) exceeded three times the Permitted Maximum

provided that for the purposes of this sub-paragraph (xv):

- (a) any disposal of assets by one Indonesian Debtor Subsidiary to another;
- (b) any disposal of assets for cash where the proceeds of the disposal are applied within one month of the date of the disposal, in or towards repaying borrowings owed to the Issuer and the Issuer thereafter retains the proceeds of such repayment in cash or applies the proceeds in purchasing Notes;
- (c) any disposal of assets for cash where the proceeds of the disposal are applied within twelve months of the date of the disposal in acquiring, or any exchange of assets for, assets of a similar nature; and
- (d) any creation of any security interest in respect of any assets

shall be deemed not to constitute a "**disposal**" and "**fixed assets**" shall mean biological assets and property, plant and equipment that are treated as non-current assets in accordance with International Financial Reporting Standards applicable on 4 December 2006;

- (xvi) procure that the Issuer complies with its covenants under the Trust Deed (including these Conditions); and
- (xvii) not agree to amend, and procure that neither the Issuer nor any Indonesian Debtor Subsidiary agrees to amend, the terms of any Prescribed Loan Agreement provided that, for the avoidance of doubt, none of:
  - (I) the subordination agreement dated 20 June 2007 and made between (1) the Issuer (as subordinated creditor), (2) REA Kaltim (as debtor) and (3) PT Bank Rabobank Indonesia and others (as senior creditors);
  - (II) any further or other arrangements pursuant to which the Issuer agrees with commercial lenders to an Indonesian Debtor Subsidiary to subordinate (a) any indebtedness owed to the Issuer by that Indonesian Debtor Subsidiary to (b) indebtedness of the Indonesian Debtor Subsidiary falling due for repayment on or before 31 December 2015 (provided that such further or other

arrangements are on like or substantially similar terms to those included in the subordination agreement dated 20 June 2007 to which reference is made at (I) above); and

- (III) any arrangements pursuant to which the Issuer agrees with the relevant counterparties to any derivative financial instrument entered into by any Indonesian Debtor Subsidiary with a view to hedging against dollars the sterling indebtedness owed to the Issuer by the Indonesian Debtor Subsidiary pursuant to a Prescribed Loan Agreement ("hedging contract") to subordinate (a) any indebtedness owed to the Issuer by that Indonesian Debtor Subsidiary to (b) obligations of the Indonesian Debtor Subsidiary under the hedging contract

will constitute an amendment for the purposes of this sub-paragraph (xvii).

(B) Covenants by the Issuer

The Issuer covenants with the Trustee that for so long as any of the Notes remain outstanding it will:

- (i) carry on and conduct its businesses and affairs in a proper and efficient manner and duly comply with all obligations imposed on it by its articles of association (*statuten*) and by Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*);
- (ii) keep proper books of account and therein make true and proper entries of all dealings and transactions of and in relation to its business; keep the said books of account and all other documents relating to its affairs at its registered office or such other place or places where such books of account and other documents ought in the ordinary course to be kept and allow the Trustee or any person or persons nominated by the Trustee in writing (not being a person or persons to whom the Issuer may reasonably object) at all reasonable times to have access to such books of account and other documents to the extent relevant for the purposes of the Notes;
- (iii) without prejudice to sub-paragraph (ii) above, keep proper records of all amounts lent by it to (and repaid or prepaid to it by) any Qualifying Subsidiary, and of the interest rate and repayment provisions applicable to each such loan, and notify the Trustee promptly (and in any event within five business days) upon (I) any new loan being made by it to a Qualifying Subsidiary (giving details of the amount of the loan and of the interest rate and repayment provisions applicable to it) and (II) any loan made by it to a Qualifying Subsidiary being repaid or prepaid in full or in part (giving details of the amount repaid or prepaid);
- (iv) give to the Trustee or any person or persons nominated by the Trustee in writing (not being a person or persons to whom the Issuer may reasonably object) such information as they may reasonably require, in such form as they may reasonably require, as to all matters relating to the business, assets and affairs of the Issuer and its subsidiaries;
- (v) not open any bank account (other than its accounts with Fortis Bank (Netherlands) N.V.) without:
- (I) the same first being approved by the Trustee and
- (II) creating in favour of the Trustee (on behalf of Noteholders) a charge over the same on terms to be approved by the Trustee with the highest possible ranking as security for the payment of interest in respect of the Notes and repayment of the principal amount of the Notes and for its obligations under the Trust Deed;
- (vi) lend monies:
- (I) to REA Kaltim only in accordance with the terms of the REA Kaltim loan agreement; and
- (II) to any other Qualifying Subsidiary only in accordance with the terms of a loan agreement made between the Issuer and the subsidiary on the Prescribed Terms;
- (vii) not lend monies to any person other than any Qualifying Subsidiary or the Guarantor provided that this shall not preclude the depositing of monies in a bank account as permitted under the terms of the Trust Deed;

- (viii) apply any monies lent by the Issuer to a Qualifying Subsidiary as provided in Condition 3 and subsequently repaid only as stipulated in Condition 3;
- (ix) not agree to amend the terms of any Prescribed Loan Agreement provided that, for the avoidance of doubt, none of:
  - (I) the subordination agreement dated 20 June 2007 and made between (1) the Issuer (as subordinated creditor), (2) REA Kaltim (as debtor) and (3) PT Bank Rabobank Indonesia and others (as senior creditors);
  - (II) any further or other arrangements pursuant to which the Issuer agrees with commercial lenders to an Indonesian Debtor Subsidiary to subordinate (a) any indebtedness owed to the Issuer by that Indonesian Debtor Subsidiary to (b) indebtedness of the Indonesian Debtor Subsidiary falling due for repayment on or before 31 December 2015 (provided that such further or other arrangements are on like or substantially similar terms to those included in the subordination agreement dated 20 June 2007 to which reference is made at (I) above); and
  - (III) any arrangements pursuant to which the Issuer agrees with the relevant counterparties to any derivative financial instrument entered into by any Indonesian Debtor Subsidiary with a view to hedging against dollars the sterling indebtedness owed to the Issuer by the Indonesian Debtor Subsidiary pursuant to a Prescribed Loan Agreement ("hedging contract") to subordinate (a) any indebtedness owed to the Issuer by that Indonesian Debtor Subsidiary to (b) obligations of the Indonesian Debtor Subsidiary under the hedging contract

will constitute an amendment for the purposes of this sub-paragraph (ix);
- (x) furnish the Trustee with a certified copy of any subordination arrangement as is referred to at sub-paragraphs (ix)(II) and (III) above as soon as practicable after such arrangement is entered into;
- (xi) procure that the aggregate value of the assets subject to the security referred to at Condition 5 at all times equals or exceeds an amount equal to the principal amount of the Notes outstanding from time to time plus, to the extent that the cash held by the Issuer at bank (and charged as security in respect of the Notes as referred to at Condition 5(i)) is less than the principal amount of the Notes outstanding, the greater of (a) 50 per cent of the amount by which the principal amount of the Notes outstanding exceeds the cash so held and (b) £10,000,000 and, for this purpose, cash on deposit and any loans by the Issuer to any Indonesian Debtor Subsidiary shall be valued at face value, with any cash deposits not retained in sterling translated to sterling at the relevant spot rates on the day of valuation and any loans by the Issuer to any Indonesian Debtor Subsidiary not made in sterling translated to sterling at the relevant spot rate(s) on the day or days on which such loans were first advanced (or, in the case of the loans of \$30,500,000 assigned by the Guarantor to the Issuer on 4 December 2006 at the rate of £1=\$1.98147);
- (xii) not incur any indebtedness in the nature of borrowings, other than:
  - (I) in respect of the Notes; or
  - (II) in respect of unsecured loans due to the Guarantor or any of its subsidiaries,

and in any event not incur any indebtedness in the nature of borrowings where to do so would result in a breach, on the date on which the borrowing would be incurred, of the borrowing restriction set out in Condition 11;
- (xiii) not create any security interest in respect of any of its assets, other than customary retention of title provisions or any security interests arising by operation of law and other than as envisaged at Condition 5;
- (xiv) not change its financial year end provided that, on or prior to 31 December 2009, the Issuer may change its financial year end to 28 February;
- (xv) give immediate notice in writing to the Trustee upon the Issuer becoming aware of the happening of any such event as is mentioned in Condition 10;
- (xvi) execute all such further documents and carry out all such further acts and things as may be necessary at any time or times in the opinion of the Trustee to give effect to the Trust Deed and these Conditions; and

(xvii) comply with the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*) and implementing regulations as amended from time to time.

**The Trust Deed does not contain any provisions limiting the borrowings of the Guarantor or any of its subsidiaries, other than the Issuer and the Indonesian Debtor Subsidiaries, nor any provisions restricting or prohibiting the granting of security by the Guarantor or any of its subsidiaries, other than the Issuer and the Indonesian Debtor Subsidiaries.**

**13. Enforcement of rights**

(A) Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed or the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes unless (i) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it has been indemnified or secured to its satisfaction.

(B) Enforcement by the Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

**14. Meetings of Noteholders, modification and waiver**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing at least one third of the principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which is not, in the opinion, of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest or proven error. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 17.

**15. Further issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds either ranking *pari passu* in all respects (save for the first payment of interest thereon) and (in the case of notes) so that the same shall be consolidated and form a single series with the Notes or upon such terms as to ranking, interest, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such notes or bonds, if they are to form a single series with the Notes, shall be constituted by a deed supplemental to the Trust Deed and in any other case in such manner as the Trustee may agree. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

**16. Replacement of certificates**

If any certificate in respect of Notes be worn out or defaced then, upon production of such certificate to the Issuer, the Issuer shall cancel the same and shall issue a new certificate in lieu thereof to the person(s) entitled to such worn out or defaced certificate. If any such certificate be lost or destroyed then, upon proof thereof to the satisfaction of the Issuer and on such terms as to evidence and indemnity as the Issuer may deem adequate being given, the Issuer shall issue a new certificate in lieu thereof to the

person(s) entitled to such lost or destroyed certificate. An entry as to the issue of the new certificate and indemnity (if any) shall be made in the register of Noteholders.

**17. Notices to Noteholders**

Any notice may be given to or served on any Noteholder either personally or by sending it by first class or airmail post in a prepaid envelope addressed to him at his registered address or (if he desires that notices shall be sent to some other person or address) to the person at the address supplied by him to the Issuer for the giving of notices or sending of other documents to him. In the case of joint registered holders of any Notes, a notice given to the Noteholder whose name stands first in the register in respect of such Notes shall be sufficient notice to all the joint holders. Any notice or other document duly served on or delivered to any Noteholder as provided above shall, notwithstanding that such Noteholder is then dead or bankrupt or that any other event has occurred and whether or not the Issuer has notice of the death or the bankruptcy or other event, be deemed to have been duly served or delivered in respect of any Notes registered in the name of such Noteholder as sole or joint holder unless before the day of posting (or if it is not sent by post before the day of service or delivery) of the notice or document his name has been removed from the register as the holder of the Notes, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such notice or document on all persons interested (whether jointly with or claiming through or under him) in the Notes.

Any notice given or document served by post shall be deemed to have been given or served on the day following that on which the same is posted and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice of the document or the notice or document itself was properly addressed stamped and posted. Any notice given or document served by delivery otherwise than by post shall be deemed to have been given or served at the time it is delivered to the address hereinbefore specified.

A Noteholder who, having no registered address within the European Union, has not supplied to the Issuer an address within the European Union for the service of notices shall not be entitled to receive notices from the Issuer. The Issuer may, at its discretion, give notices to such Noteholder by advertisement (to Noteholders generally) in a national newspaper published in the Netherlands and a national newspaper published in the United Kingdom, and any such notices shall be deemed to be effective on the date of such publication.

If at any time the Issuer is unable to give notice by post as a result of the suspension or curtailment of postal services in the Netherlands and/or the United Kingdom, notice may be given to Noteholders by advertisement in a national newspaper published in the Netherlands and a national newspaper published in the United Kingdom. In any such case, the Issuer shall send confirmatory copies of the notice by post as soon as practicable after normal postal services throughout the Netherlands or the United Kingdom (as applicable) are restored.

**18. Notices to the Issuer and to the Guarantor**

Any notice, demand or other document may be served:

- (i) on the Issuer by sending the same by post in a prepaid letter to the registered office of the Issuer marked for the attention of The Managing Trustee, or to such other address in the Netherlands and/or addressee as the Issuer may from time to time notify to the Trustee and to Noteholders;
- (ii) on the Guarantor by sending the same by post in a prepaid letter to the registered office of the Guarantor marked for the attention of The Company Secretary, or to such other address in England and/or addressee as the Guarantor may from time to time notify to the Trustee and to Noteholders.

Any notice, demand or other document served on the Issuer shall be copied to the Guarantor in accordance with sub-paragraph (ii) above.

**19. Trustee**

Capita Trust Company Limited, whose principal office is [7<sup>th</sup> Floor, Phoenix House, 18 King William Street, London EC4N 7HE], has agreed to act as trustee of the Noteholders in respect of the Notes.

The statutory power of appointing new trustees shall be vested in the Issuer but a new trustee so appointed must in the first place be approved by the Noteholders by an

Extraordinary Resolution. At least one trustee must be a trust corporation and a trust corporation may be a sole trustee. Whenever there are more than two trustees, a majority of trustees shall be competent to exercise all the powers, authorities and discretions vested in the Trustee under the Trust Deed or by law, provided always that a trust corporation is included in such majority.

Any trustee may at any time on the expiry of not less than three months' written notice to that effect given to the Issuer retire without assigning any reason and without being responsible for any expense thereby occasioned.

As between the Trustee and the Noteholders, the Trustee shall have full power to determine all questions and doubts arising in relation to any of the provisions of the Trust Deed and the Notes and every such determination, whether made upon a question actually raised or implied in the acts or proceedings of the Trustee, shall be conclusive and shall bind all Noteholders.

The Issuer will pay to the Trustee by way of remuneration for its services as trustee such sum as may from time to time be agreed between them, together with any amount of value added tax or similar tax in respect thereof. The Issuer shall also reimburse all costs, charges, liabilities and expenses reasonably incurred by the Trustee in relation to the carrying out of its functions as trustee, together with any amount of value added tax or similar tax in respect thereof.

**20. Indemnity in favour of the Trustee and contracts between the Trustee and the Issuer and/or the Guarantor**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of their respective subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/ the Guarantor and/or any of their respective subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

**21. Exercise of functions by the Trustee**

In connection with the exercise of any of its trusts, powers or discretions (including but not limited to those relating to any proposed modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interest arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to require, nor shall any Noteholder, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim from the Issuer or any other person any indemnification or payment in respect of any tax or other consequence thereof upon individual Noteholders.

**22. Governing law and submission to jurisdiction**

The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law. Each Noteholder is deemed to have irrevocably agreed that the courts of England shall have jurisdiction to hear and decide any suit, action or proceedings and/or to settle any disputes which may arise out of or in connection with the Notes or their creation and for these purposes each Noteholder will be deemed to have irrevocably submitted to the exclusive jurisdiction of the courts of England."

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## **PART VI. BUSINESS OF THE GROUP**

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### **1. Overview**

Save as noted under "New initiative" below, the entire business of the group is represented by oil palm operations from which the group produces CPO and palm kernels.

All of the group's operations are located in East Kalimantan and have been established pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities agreed in principle to the group in acquiring, for its own account and in co-operation with local interests, substantial areas of land in East Kalimantan for planting with oil palms. The oldest planted areas, which represent the core of the group's operations, are owned through REA Kaltim in which the company indirectly holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, in 2005 and 2006, two new companies, PT Sasana Yudha Bhakti ("SYB") and PT Kartanegara Kumala Sakti ("KKS"), were established with the object of securing additional land on which to continue the development programme with, in each case, 95 per cent ownership by the group and 5 per cent by East Kalimantan investors.

Further efforts to ensure the availability of land for expansion during 2007 and 2008 to date have resulted in the group acquiring a further three Indonesian companies PT Cipta Davia Mandiri ("CDM"), PT Kutai Mitra Sejahtera ("KMS") and PT Putra Bongan Jaya ("PBJ"). In addition and subject to receipt of necessary Indonesian regulatory approvals, the group has agreed in principle to acquire one other Indonesian company, PT Prasetya Utama ("PU"). Each of these four Indonesian companies is, or will, on completion of Indonesian regulatory formalities, be, owned as to 95 per cent by group companies and 5 per cent by East Kalimantan investors.

### **2. Land areas**

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

Following the recent acquisitions of CDM, KMS and PBJ and assuming completion of the acquisition of PU, the group will hold land allocations totalling (on the basis of estimated hectares, some of which are subject to survey) slightly in excess of 129,000 hectares. The allocations are at different stages of titling and a significant element of the land allocated is not yet available to the group for planting. Completion of the titling process may result in allocated land areas in respect of which there are conflicting claims to the land becoming unallocated. Moreover, environmental considerations dictate that a proportion of all land developed is set aside for conservation and a further proportion is required for roads, building and other infrastructural facilities. Accordingly, when the titling process in relation to the land areas currently allocated is completed, the plantable area is likely to be significantly less than 129,000 hectares.

Up to the beginning of 2007, hgu certificates had been issued in respect of the entire 30,106 hectares allocated to REA Kaltim and 5,110 hectares of the land areas allocated to SYB. The balance of the land allocated to SYB amounts to some 11,000 hectares. It had been expected by the directors that this land would be released to the group under three separate titles during 2007. However, it was discovered that part of these 11,000 hectares had, in addition to being allocated to SYB, also been allocated to another company for mineral exploration. This caused a delay. The conflicting land claim problem has recently been resolved and the first of the three previously unreleased areas, estimated at 5,200 hectares, has now been released to SYB. It is hoped that the balance of the land will now be released without further complications.

A problem, as yet unresolved, has also been experienced with respect to the 20,000 hectares allocated to KKS. The problem is that the titling process in respect of this area has been delayed pending the issue of a decree by the Indonesian Ministry of Forestry that will allow implementation of a new provincial development plan that has been drawn up and approved by the provincial government of East Kalimantan. Issue of this decree, which is being negotiated between the Ministry of Forestry and the provincial government of East Kalimantan, has been reported to be imminent for some time. Whilst the directors remain hopeful that this problem will ultimately be resolved, the timing of such resolution is uncertain and significant further delay now appears likely.

During 2007, with no further land available for immediate development within REA Kaltim, SYB or KKS (the conflict of title problem in relation to SYB land being at that time unresolved), the directors decided that the group should take urgent steps to acquire additional land areas in respect of which land development permits (a key component of the titling process) had already been issued. The result has been the acquisitions referred to above, bringing with them, in the case of CDM, KMS and PBJ, land allocations (as estimated subject to survey) totalling some 54,000 hectares with development permits covering significant land areas within these allocations and, in the case of PU, a further 9,000 hectares as respects which PU holds a full hgu certificate.

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

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

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

### **3. Land development**

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

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

During 2007, new development resulted in an increase of only 1,500 hectares in the total area planted or in course of development. This increase fell very materially short of the target of 6,500 hectares that had been set at the beginning of the year. This was because the titling problems in relation to the untitled land allocations held by SYB and KKS, as referred to under "Land areas" above, meant that the group was unable to arrange for sufficient allocated land to be made available for development to meet the requirements of the development programme.

Looking forward, the directors continue to regard the availability of land for development as the key constraint on expansion. The serious and unexpected delays suffered in 2007 have made it clear that any predictions as to land availability may prove inaccurate. Nevertheless, considerable progress has been made in relation to land matters so that, in addition to the 5,200 hectares released to SYB, a significant component of the land held by CDM and PBJ is now available for development by the group subject to allocation of areas for conservation. These should be augmented by the entire 9,000 hectare area held by PU upon the acquisition of that company becoming unconditional. Moreover the directors are hopeful that a further area held by KMS will also become available for development during the year.

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

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

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

#### **4. Processing**

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

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

The group operates its own fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with storage tanks adjacent to the oil mills and a transshipment terminal owned by the group downstream of the port of Samarinda. The fleet comprises one barge of 3,000 tonnes, which the group time charters, and a number of smaller barges, each of 1,500 tonnes or less, which are owned by the group. The smaller barges

are used for transporting palm products from the upriver operations to the port area where they are either loaded directly into buyers' vessels or are delivered to the transshipment terminal for later collection by buyers. The 3,000 tonne barge can be used for sea voyages to Malaysia and within Indonesia thus permitting the group to deliver CPO and CPKO to buyers' nominated destinations in Malaysia and Indonesia. The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers.

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

During periods of lower rainfall (which normally occur for short periods during the months of May to August), river levels on the upper part of the Belayan river become volatile and palm product outputs at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. The group owns a riverside site at the downstream loading point on which a permanent facility for use during dry periods may be established in due course.

**5. Crops and extraction rates**

FFB production has risen over the past five years from 222,713 tonnes in 2003 to 393,217 tonnes in 2007.

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

Accordingly, the group can expect significant further increases in crop from the areas already planted as immature and newly mature plantings progressively grow to full maturity. These increases should then be augmented by the extension planting programme currently planned.

In years when weather conditions are not materially atypical, a CPO extraction rate of about 24 per cent and a palm kernel extraction rate of about 4 per cent have generally been achieved by the group. Against industry norms, the directors consider the combined extraction rate to be more than satisfactory.

**6. Revenues and markets**

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

The outlook for CPO prices must be considered against the background of consumption of vegetable and animal oils and fats. According to Oil World, annual worldwide consumption of vegetable and animal oils and fats continued to increase in the year to 30 September 2007, growing by 6.8 million tonnes (4.7 per cent) to 152.7 million tonnes. Major uses of vegetable and animal oils and fats have conventionally been for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. An additional use for vegetable oil, which is currently assuming an increasing importance in worldwide demand, is bio-fuels. In particular, bio-diesel demand has accounted for the significantly higher year on year increase in consumption of vegetable oils that has been seen in each of the last three years.

According to Oil World, CPO production in the year to 30 September 2007 totalled 37.4 million tonnes, representing some 24.6 per cent of the total world production of the 17 major vegetable and animal oils and fats for the same period of 151.9 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 rapidly adjusted in response to market surpluses or shortfalls within the vegetable oils and fats complex. The directors believe that levels of annual oilseed production will ultimately be driven by fundamental market factors with the result that imbalances will be corrected within a relatively short time frame.

It is, however, possible that normal market mechanisms may be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there has been action by governments to reduce dependence on fossil fuels. This has included steps to enforce mandatory blending of bio-fuel as a fixed minimum percentage of all fuels and subsidies to support the cultivation of crops, such as corn, capable of being used to produce bio-fuel. Such action has increased returns for farmers from growing such crops and has meant that land, which, given the current levels of vegetable oil prices, might have been expected to have been converted to growing annual oilseed crops has been used for alternative crops.

Over the ten years to 31 December 2007, the monthly average CPO price CIF Rotterdam, as derived from prices published by Oil World, moved between a high of \$952 per tonne and a low of \$234 per tonne. The average price over the same ten years was \$469 per tonne.

During 2007, the CPO price, spot CIF Rotterdam, rose progressively from an opening level of some \$600 per tonne to a closing level of \$950 per tonne, resulting in an average price for the year of \$780 per tonne, some 63 per cent more than the 2006 average. Further strong price rises were recorded in the first quarter of 2008 and in early March 2008 CPO traded at in excess of \$1,300 per tonne. The price has subsequently fallen back and currently stands at about \$1,050 per tonne.

In 2007, approximately 51 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 49 per cent was exported. FOB prices realised for CPO in the local market during 2007 were for the most part marginally higher than those available in the export market but, as sales volumes continue to increase, the group wishes to ensure that it can access the larger CPO markets available internationally when necessary. Export sales in 2007 were concentrated within the South East Asian region.

As a general rule, all CPO produced by the group is sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO production for a forthcoming period of twelve months. The group currently has forward sales at the rate of 2,000 tonnes per month until December 2008 at a price equivalent to a CIF Rotterdam price of \$870 and thereafter, for the twelve month period to December 2009, at a price equivalent to \$860 per tonne.

Export duty is currently payable on exports of CPO from Indonesia on a sliding scale. Pursuant to this scale, duty is levied on the Indonesian gazetted price of CPO (being broadly the prevailing market price of CPO FOB Indonesian ports) at a percentage rate that rises from nil on prices up to the equivalent of \$550 per tonne CIF Rotterdam to 25 per cent on prices equivalent to \$1,300 per tonne CIF Rotterdam or above

All CPKO produced by the group has to date been sold to the local Indonesian market. During 2007, CPKO sales achieved an average premium of some \$115 per tonne over the FOB price per tonne for CPO.

## **7. Cost base**

The group's revenue costs principally comprise: direct costs of harvesting, processing and despatch; direct costs of upkeep of mature areas; estate and central overheads in Indonesia; the overheads of the UK head office; and financing costs. Whilst direct costs vary to an extent with crops harvested and the area under cultivation, the harvesting

component of costs is not a high proportion of the total. Accordingly, once an area is mature, costs relating to that area are for the most part fixed.

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

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

## **8. Employees**

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

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

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

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

The group's extension planting programme brings with it the need continuously to enlarge the operational management team. Graduates with agricultural qualifications are recruited annually to join the group's twelve month cadet training programme, which provides a grounding in all aspects of oil palm estate management. Those who successfully complete the programme are offered positions as assistant managers.

Other courses, constructed and operated out of the group's training school, are targeted primarily at lower and middle management levels. In addition, as the group recognises the importance of developing management skills at all levels, the scope of the group's training programme includes external management development courses for the group's senior Indonesian management.

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

## 9. Social responsibility

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

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

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

For many years, the group has provided staff and equipment on an ad hoc basis to give support to local communities but, during 2006, it was decided that a more formal and planned approach was required. As a result, the group is establishing small specialist management teams that will formulate and manage the group's community development initiatives. A team of external consultants is used to produce an initial community needs assessment for each of the group's new development areas.

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

Secondly, each community development team is required to have a day to day presence on the ground, visiting local communities and developing small scale self-help projects with individual groups of villagers. The group has allocated a specific budget to assist in financing these self-help programmes, which to date have included chicken rearing, fish farming and fruit and vegetable cultivation. The proximity of the sizeable workforce resident on the group's estates provides a readily accessible local market for the produce arising from such schemes. Some 50 projects are scheduled to be running by the end of 2008. Each village adjacent to the group's established operations has at least one active project. The establishment of a credit union scheme to assist in the provision of finance for community projects is currently under review.

The group has conservation programmes developed from an environmental impact assessment made in 1995 by independent experts and since periodically updated to reflect the further external expert advice sought by the group. Designated conservation reserves, aimed at conserving or enhancing landscape level bio-diversity, continue to be established within the group's operational areas and, with the exception of one area that was destroyed by a fire during the 1997/98 El Nino drought, these reserves continue to

be managed actively and maintained. The total area of the group's conservation reserves at the end of 2007 amounted to some 6,700 hectares.

The group manages conservation issues through a dedicated on site management team led by a conservation expert. This team is responsible for progressive implementation of the group's conservation policy, which is: to compile a detailed record of the physical attributes of the landscape, its bio-diversity resources and the status and value of each to both international and local communities; to minimise or eliminate adverse impacts from the group's plantations upon soil, water and biological communities; to achieve bio-diversity conservation through protection and sustainable use; and to seek conservation outcomes that accrue long term benefit to local communities.

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

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

Since 2005, the group has employed an international firm of consultants to perform an annual management performance review covering production and environmental practices and social sustainability. Conclusions and recommendations are carefully reviewed by senior operating management and the group's managing director and appropriate responsive action is taken. The company is a member of the Roundtable on Sustainable Palm Oil ("RSPO"). The RSPO has produced a set of principles and criteria for the sustainable production of CPO. National interpretations of these principles and criteria are currently being developed in each of the major producer countries so as to be made consistent with that country's legal system. Upon completion of this work, it is anticipated that procedures will be put in place by which individual companies can obtain RSPO accreditation. Pending finalisation of the RSPO accreditation process for Indonesian plantations, the group is seeking ISO 14001 certification for its mill and estate operations.

#### **10. New initiative**

It was noted under "Review of the group" in the company's 2007 annual report that the directors had been tentatively considering a possible investment by the group' in coal mining. The group has now established a small office in Jakarta to pursue this possibility. The office, which is staffed and operated quite separately from the group's plantation operations, has secured for the group a short term arrangement to source coal from Kalimantan and supply it to a power station in Sumatra. Profits from this arrangement are expected to cover the costs of the office. More importantly, by involving itself in the arrangement, the group is obtaining a better understanding of the Indonesian coal market and of the opportunities open to foreign investors in coal mining in Indonesia.

With the experience gained from this initial activity, and with assistance from the group's long standing local connections in East Kalimantan, the group has been able to consider a number of opportunities for the acquisition of land areas in East Kalimantan with potential for open cast mining of coal. One such opportunity is currently being actively pursued. This would involve the acquisition by the group, for a consideration of about

\$3,500,000 (to be satisfied in cash), of mining rights in respect of a concession area with existing permits for coal mining and geological reports confirming proven coal reserves suitable for open cast mining. A decision as to whether to proceed with this acquisition should be made in the near future.

## **11. Financing**

The group is financed by a combination of debt and equity (comprising ordinary and preference share capital). Total equity less minority interests at 31 December 2007 amounted to \$147,800,000.

The current group indebtedness position remains substantially unchanged from the position at 31 December 2007. At that date, group indebtedness totalled \$86,200,000, made up of dollar denominated bank indebtedness under an Indonesian consortium loan facility of \$15,400,000, £22,000,000 nominal of original notes, \$30,000,000 nominal of dollar notes and other short term indebtedness (including obligations under finance leases) of \$700,000. Against this indebtedness, at 31 December 2007 the group held cash and cash equivalents of \$34,200,000

The terms and condition that will be applicable to the original notes pursuant to the amended and restated trust deed are set out in Part V above. The dollar notes are constituted by the trust deed summarised at contract (2) under "Material contracts" in Part IX below, are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012. Borrowings under the Indonesian consortium loan facility, which is provided pursuant to the contract summarised at contract (1) under "Material contracts" in Part IX below, are secured on the assets and undertaking of REA Kaltim and are guaranteed by the company. The outstanding balance of \$15,400,000 at 31 December 2007 is repayable as follows: 2008 - \$2,500,000, 2009 - \$10,700,000 and 2010 - \$2,200,000.

The extent of the cash and cash equivalents at 31 December 2007 reflected delays during 2007 to the planned development programme that meant that development expenditure during 2007 was lower than if the development programme had proceeded as intended. With continuing delays to the development programmes during the early months of 2008, the group retains substantial cash resources. However, now that development has been resumed and is proceeding apace, the group is committing to major new capital expenditures.

On the basis of present CPO prices, the directors expect that operating cash flows for the remainder of 2008, together with the group's existing cash resources, will be sufficient to fund both the planned development programme for the year and near term debt repayments. However, looking beyond 2008 and allowing for the fact that CPO prices may not be sustained at current levels, the group is likely to require further funding if, as the directors hope will be the case, high levels of extension planting are achieved. The proposed issue of further notes is designed to meet that requirement as estimated at the moment on the basis of the development programme currently planned.

Because CPO is priced in dollars and many of the groups operational costs are incurred in dollars, the directors regard the dollar as the functional currency of the group. The group has entered into a long term sterling dollar debt swap to hedge the sterling liability for principal and interest payable in respect of the original notes (but, in the case of interest, only as respects interest payments falling due up to and including 31 December 2015). The directors intend that the group should also hedge the sterling dollar exposure that will result from the issue of the further notes by a second long term debt swap provided that such swap can be arranged on terms that the directors consider commercial.

## **12. Current trading**

The FFB crop for 2008 has been budgeted at 421,000 tonnes. FFB harvested during the six months to 30 June 2008 totalled 231,000 tonnes. This was well ahead of the crop of 165,000 tonnes achieved in the corresponding period of 2007 and some 30,000 tonnes ahead of budget. Year to year variations in the monthly phasing of crops are normal and it should not be assumed that the crop for 2008 as a whole will necessarily be over budget.

CPO and palm kernel production for the six months to 30 June 2008 amounted to, respectively, 53,800 tonnes (2007: 40,700 tonnes) and 10,500 tonnes (2007: 7,000 tonnes) reflecting extraction rates of 23.0 per cent for CPO (2007: 24.5 per cent) and 4.5

per cent for kernels (2007: 4.2 per cent). Production of CPKO for the period amounted to 4,200 tonnes (2007: 2,900 tonnes) with an extraction rate of 40.3 per cent (2007: 41.4 per cent).

As indicated under "Revenues and markets" above, the CPO market has been firm during 2008 to date. Prices rose from the beginning of the year, reached a peak in early March 2008 at a price of almost \$1,400 per tonne, CIF Rotterdam, and have since fallen back to around \$1,030 per tonne. CPO currently stands at a significantly higher discount to the price of soybean oil than has historically been the norm. This suggests that the CPO price is being supported by the strength of demand for other vegetable oils rather than an imbalance within the CPO market itself and this view is supported by the increases in CPO stocks in recent months. Nevertheless, the directors believe that it is likely that the group can look forward to CPO prices remaining at satisfactory levels for the rest of 2008.

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

Although the hiatus in the extension planting programme experienced in the latter part of 2007 (as referred to under "Land development" above) continued into 2008, development was resumed in May 2008 and is now progressing well. If the group achieves its target of increasing its planted hectareage to some 45,000 hectares by the end of 2009, this will increase the pipeline of immature areas that will in due course come into cropping and the group can look forward to increasing crops for a considerable number of years to come. At current CPO price levels, the immediate prospects speak for themselves.

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## **PART VII. DIRECTORS AND CORPORATE GOVERNANCE OF THE COMPANY**

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### **1. Directors**

(A) The directors of the company (all being of First Floor, 32-36 Great Portland Street, London W1W 8QX) 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 nearly 35 years in the plantation industry. He is a non-executive director but is actively involved in the affairs of the group. He is non-executive chairman of M.P. Evans Group plc, a UK plantation company of which the issued shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange, and a non-executive director of two other listed plantation companies: Sipef NV, Belgium, and REA Vipingo Plantations Limited, Kenya. Aged 62.

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

Mr Oakley was appointed a director in 1985 after early experience in investment banking and general management. At various times, he has subsequently been responsible for group businesses involved in horticulture, tea, bananas, pineapples, commodity trading and oil palm. He was appointed managing director on 1 January 2002. Aged 59.

(iii) *David Blackett (Independent non-executive director)*

Mr Blackett was appointed a non-executive director on 1 July 2008. After qualifying as a chartered accountant in Scotland, he worked for over 25 years in South East Asia where he concluded his career as chairman of AT&T Capital Inc. Prior to joining that company, he was a director of an international investment bank with responsibility for the bank's South East Asian operations. He is a non-executive director of South China Holdings Limited, a company listed on the Hong Kong Stock Exchange. Aged 57.

(iv) *John MacDonald 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 and is chairman of the audit and remuneration committees. He is chairman of AMEC PLC and of JZ International Limited and a director of a number of other companies. Aged 63.

(v) *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 chairman of the nomination committee. His background is in the fertiliser industry. He is chairman of NPK Holdings Limited. Aged 75.

(vi) *David Henry Rothwell Killick (Independent non-executive director)*

Mr Killick was appointed a non-executive director in 2006. After qualifying as a barrister, he became a Fellow of the Institute of Chartered Secretaries. He worked for nearly 30 years for the Commonwealth Development Corporation, serving as a member of its management board from 1980 to 1994. Thereafter, he has held a number of directorships. He is currently a director of Siberia Investment Management Company Limited and Reallyenglish.com Limited and a member of the council of management of Slough Council for Voluntary Service. Aged 70.

(vii) *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. His present directorships include The China Club Limited and China Investment Fund. Aged 89.

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

Mr Lim was appointed a non-executive director in 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 chairman of SPC Power Corporation, a public company listed on the Phillipines Stock Exchange, chairman and president of Agusan Plantations Inc, Phillipines and a director of Pan Abrasives (Pte) Limited, Singapore. Aged 67.

(B) As noted in paragraph (A) 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 an international commodity and the group's share of the CPO market is small, the group does not compete for sales with other producers of CPO.

(C) As detailed under "Significant shareholders" in Part IX below, Mr Robinow, together with his immediate family and other members of the Robinow family, together own the whole of the issued share capital of Emba, a significant shareholder in the company. Emba has agreed that it will not undertake activities in conflict with those of the group.

(D) Save as referred to in paragraphs (B) and (C) 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.

## **2. Corporate governance**

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

(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 committee is provided under "Audit committee" below. The nomination committee is responsible for recommending new appointments to the board while the remuneration committee sets the remuneration and benefits of the managing director (being the only executive director of the company) and the chairman.

(C) In the opinion of the directors, the company complies fully with the provisions set out in section 1 of the Combined Code. In making this statement, the directors have reflected their view that the non-executive directors (other than the chairman) who have served on the board for more than nine years remain independent although the directors are aware that some institutional investors take the view that such non-executive directors can never be regarded as independent.

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

Following the recent appointment of Mr Blackett as a non-executive director, the directors intend to revise the composition of the board committees with a view to putting beyond question their compliance with the Combined Code requirements.

**3. Audit committee**

(A) The audit committee comprises Mr Green-Armytage (chairman) and Mr Killick. It is responsible for:

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

The audit committee also monitors the engagement of the auditors 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 by management, the group's internal audit function in Indonesia and the external auditors, and by holding at least three formal meetings in each year.

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## PART VIII. FINANCIAL INFORMATION REGARDING THE GROUP

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### 1. Historical financial information regarding the company

Historical financial information concerning the company and the group, covering the two years ended 31 December 2007 and incorporating the statutory accounts of the company for those years, is set out in the annual reports of the company for the years 2006 and 2007. The statutory accounts for both years were prepared in accordance with IFRS. The accounts for 2006 were presented in sterling while those for 2007 were presented in dollars (with comparative figures for 2006 restated in dollars).

This document incorporates by reference those pages of the annual reports of the company for 2006 and 2007 that contain the auditors' reports, consolidated financial statements, group accounting policies and notes to the consolidated financial statements for each of the two years ended 31 December 2007. Those annual reports may be accessed as described under, and the pages containing the information incorporated by reference are detailed under, "Information incorporated by reference" in Part III above.

The statutory accounts in respect of the two financial years ended 31 December 2007 were audited by Deloitte & Touche LLP, chartered accountants and registered auditors, of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. The audit report in respect of each year was unqualified within the meaning of sections 235 to 237 of the Companies Act 1985. The statutory accounts for both years have been delivered to the registrar of companies in England and Wales.

### 2. Summary historic financial information regarding the company

The following table provides summary financial information concerning the group for the two years ended 31 December 2007. The information has been extracted without material adjustment from the statutory accounts of the company included in the annual reports of the company for the year ended 31 December 2007. Such statutory accounts were audited. The summary financial information itself has not been audited.

	As at 31 December 2007 \$'000	As at 31 December 2006 \$'000
<i>Summary of net assets</i>		
Non-current assets	236,713	202,807
Current assets	50,557	46,325
Current liabilities	(13,530)	(30,855)
Non-current liabilities	(125,107)	(112,756)
	<u>148,633</u>	<u>105,521</u>
	Year to 31 December 2007 \$'000	Year to 31 December 2006 \$'000
<i>Summary of results (before taxation and minority interests)</i>		
Revenue	<u>57,600</u>	<u>33,095</u>
Earnings before interest, tax, depreciation and movement on biological assets	43,346	13,733
Depreciation and amortisation	(1,990)	(1,661)
Change in fair value of biological assets	<u>8,030</u>	<u>8,700</u>
Operating profit	49,386	20,772
Investment revenues and finance costs	<u>(2,376)</u>	<u>(1,010)</u>
Profit before taxation	<u>47,010</u>	<u>19,762</u>

### **3. Dividends**

The preference shares entitle the holders of those shares to receive, out of the profits of the company available for distribution and resolved to be distributed, 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. There are no outstanding arrears of dividend.

Dividends totalling 2p per ordinary share were paid in respect of 2007 (2006 – 1p per ordinary share). In addition, the company made a capitalisation issue to ordinary shareholders on the basis of one new preference share for every 30 ordinary shares held on 1 October 2007, resulting in the issue of 1,085,795 new preference shares..

Going forward, the directors believe that the group should be able to support progressive increases in ordinary dividends from the modest levels paid in respect of 2006 and 2007, but they believe that the rate of progression should be steady rather than dramatic. The directors intend that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years. If the group's results would appear to justify some additional return to ordinary shareholders beyond the level of ordinary dividends that the directors consider appropriate on this basis, the directors will consider a further capitalisation issue to ordinary shareholders of new preference shares.

### **4. Possible change of accounting reference date**

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

The directors are therefore contemplating a change in the company's accounting reference date to 28 February. If such a change were made, the directors would intend that the issuer's financial year end would also be changed to 28 February. The amended and restated trust deed incorporates provisions that would permit both such changes if made on or prior to 31 December 2009 (so as to result in a fourteen month financial period either to 28 February 2009 or 28 February 2010).

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## PART IX. ADDITIONAL INFORMATION

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- 1. 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 of the United Kingdom with registered number 671099 and was re-registered on 15 February 1982 as a public limited company under the Companies Acts 1948 to 1980 of the United Kingdom. The company is subject to the provisions of the Companies Acts 1985 and 2006 of the United Kingdom. The registered and head office of the company is First Floor, 32-36 Great Portland Street, London W1W 8QX (telephone + 44 (0)20 7436 7877).
- (B) The company is the parent company of a group of companies and is not itself a subsidiary of any other company. Substantially all of the operations of the group that are currently cash generating are owned by REA Kaltim and the company's profitability and cash flow is therefore materially dependent upon REA Kaltim.

- 2. 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	17,500,000	17,500,000	13,600,000	13,600,000
Ordinary shares	41,000,000	10,250,000	32,573,856	8,143,464

(B) 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 a balance of 833,534 ordinary shares at a price of 44.1286p per share.

- 3. 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, as augmented by the Companies Act 2006, include provisions to the following effect:

*(i) Voting rights*

At any general meeting, a holder of ordinary shares present in person or by proxy is entitled on a show of hands to one vote (or, where represented by more than one proxy, to one vote for each proxy present) and, on a poll to one vote for each ordinary share held by him.

A holder of preference shares is entitled to vote in like manner to a holder of ordinary shares at any general meeting where, on the date of the notice of the meeting, 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 special rights or privileges attaching to the preference shares, but a holder of preference shares is not otherwise entitled to vote at any general meeting.

*(ii) Dividends*

Out of the profits available for distribution and resolved to be distributed, the holders of the preference shares are entitled to a fixed cumulative preferential dividend at the rate of 9 per cent per annum on the 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.

Subject to the rights of the holders of the preference shares, the holders of the ordinary shares are entitled to share (as between them proportionately to the amounts paid up on their respective holdings of ordinary shares) any dividend paid on the issued ordinary share capital of the company.

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*

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

Subject to the rights attached to the preference shares and to any special rights which may be attached to any other class of shares, any surplus of the 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.

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

The company may increase its share capital and may consolidate or sub-divide its shares, in each case by ordinary resolution. Without prejudice to any rights previously conferred on the holders of any class of shares, any shares may be issued with such rights or such 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).

Where the share capital is divided into different classes, the rights attached to any class of shares may be modified, abrogated or varied 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 meeting of holders of the shares of that class. The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to, or the terms of issue of, such shares be deemed to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.

**4. Significant shareholders**

(A) As at 28 July 2008 (being the latest practicable date prior to the publication of this document), the company had received notifications required by the Disclosure and Transparency Rules of the Financial Services Authority from the following persons of the voting rights held by them as shareholders through the holdings of ordinary shares indicated:

	<i>Number of ordinary shares</i>	<i>Percentage of ordinary share capital</i>
Emba	9,925,000	30.5
Alcatel Bell Pensioenfond VZW	4,007,049	12.3
Prudential plc and certain of its subsidiary companies	3,904,870	12.0
Legal & General Group Plc	1,014,161	3.1

In addition, the company has been notified that the above interest of Prudential plc and certain subsidiaries includes 3,447,792 ordinary shares (10.6 per cent) in which M&G Investment Funds 3 is also interested.

(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 Disclosure and Transparency Rules of the Financial Services Authority. In so far as is known to the company and other than as disclosed in paragraph (A) above, 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 of the company at a future date.

(C) 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, on the one hand, a listed company and its subsidiaries and, on the other hand, 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.

(D) Mr R M Robinow (the chairman of the company), his immediate family and other members of the Robinow family together own the whole of the issued share capital of Emba.

## 5. The issuer

(A) The issuer was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on 7 November 2006. The issuer is subject to the provisions of the Dutch Civil Code. The registered office of the issuer is at Prins Bernhardplein 200, 1097 JB Amsterdam (telephone + 31 (0)20 521 4777). The issuer has been registered with the trade registry of the Chamber of Commerce and Industries in Amsterdam under number 34259527.

(B) The principal objects of the issuer are set out in article 3 of its articles of association and include, inter alia, acting as and performing the functions of a finance company.

(C) The issuer is a wholly owned subsidiary of the company and was established for the purposes of the issue of the original notes. The issuer has no subsidiaries. Substantially all of the issuer's assets currently comprise loans to REA Kaltim and will in future comprise loans to REA Kaltim and/or other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit. The issuer's profitability and cash flow will therefore be materially dependent upon REA Kaltim and the other Indonesian debtor subsidiaries.

(D) The authorised share capital of the issuer is €90,000 divided into 90,000 ordinary shares of €1 each, of which 18,000 have been issued, are fully paid up and are owned by the company. All shares rank *pari passu* for dividends and other distributions and on a return of capital. The shares are freely transferable.

(E) No material investments have been made by the issuer since 31 December 2007, being the end of the last period for which the company has published financial statements, and, save as respects the loans proposed to be made to REA Kaltim and/or other subsidiaries of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit as referred to under "The issuer" in Part IV above, no commitments have been made as respects any future such investments.

(F) In so far as is known to the issuer, there are no arrangements the operation of which could result in a change of control of the issuer at a future date.

(G) The company, as the sole shareholder of the issuer, has appointed Fortis Intertrust (Netherlands) B.V. of Prins Bernhardplein 200, 1097 JB Amsterdam to serve as the sole director of the issuer. Fortis Intertrust (Netherlands) B.V. is a member of the Fortis banking group and its directors are Messrs C P M Roelofs, O J A van der Nap, P de Langen and R W Bakker and its supervisory board consists of Messrs B L M Schreuders and H P F E Bos. The business address of all the directors and members of the supervisory board is Prins Bernhardplein 200, 1097 JB Amsterdam.

(H) The corporate director of the issuer and the directors of that corporate director have no potential conflicts of interest between their duties to the issuer and their private interests or other duties.

(I) The issuer does not comply with the corporate governance rules of the Netherlands because such rules apply only to companies established in the Netherlands whose shares are listed on a stock exchange and the issuer's shares are not so listed. However, as a wholly owned subsidiary of the company, the issuer will comply with corporate governance practices imposed by the company on its subsidiaries in line with the company's own corporate governance policies. As the issuer has a single director, the issuer has not appointed an audit committee. Matters concerning the audit of the issuer are dealt with by the sole director of the issuer.

## 6. UK taxation (A) General

**The comments below are of a general nature and are based upon the company's understanding of current United Kingdom ("UK") tax laws and the practice of Her Majesty's Revenue and Customs ("HMRC") as at the date of this document, which laws and practice are subject to change, perhaps with retroactive effect. They do not purport to be a complete analysis of all tax considerations, relate only to the position of persons who hold further notes as an investment and are the absolute beneficial owners of the further notes and may not apply to certain classes of persons such as dealers, persons who have acquired (or are deemed to have acquired) their further notes 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 further notes who are resident and (if individuals) ordinarily resident in the UK for tax purposes and it is assumed that the nominal value of further notes comprised in the initial tranche of further notes now proposed to be issued will exceed the aggregate nominal value of any subsequent issues of further notes under this document. Prospective holders of further notes 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) UK withholding tax and UK tax on interest

While the further notes are listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 ("ITA"), payments of interest may be made by the issuer without withholding or deduction of, or on account of, income tax. The London Stock Exchange is such a recognised stock exchange. If the further notes were to cease to be listed, in the unlikely event that the interest paid thereon had a UK source, interest may be paid after deduction of income tax at the basic rate (currently 20 per cent).

If the company makes any payments in respect of interest on the further notes, even if the further notes continue to be listed on a recognised stock exchange on the date on which such payments are made, such payments may be subject to the deduction of tax at the basic rate (currently 20 per cent).

Where the interest is paid without withholding or deduction, the interest will not generally be assessed to UK tax in the hands of holders of further notes who are not resident in the UK (excluding certain trustees), except where such persons carry on a trade, profession or vocation in the UK through a UK branch or agency (or, in the case of a company, through a UK permanent establishment) in connection with which the interest is received or to which the applicable further notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent, such as brokers or investment managers) tax may be levied on the UK branch or agency or permanent establishment.

### (C) UK corporation taxpayers

Holders of further notes who are within the charge to UK corporation tax should be aware of the provisions of the Finance Act 1996 relating to the taxation of "loan relationships". The effect of these provisions is that any profits and gains (including interest or discount) arising on the further notes in the hands of such holders will generally be charged to tax as income in each accounting period on a basis reflecting the treatment in the noteholders' statutory accounts. Holders of further notes that are authorised unit trusts, open ended investment companies, investment trusts and venture capital trusts will be subject to the same taxation treatment in respect of further notes as other holders of further notes that are within the charge to UK corporation tax, other than with respect to capital profits, gains or losses in the case of authorised unit trusts and open-ended investment companies as determined in accordance with the statement of recommended practice relating to authorised investment funds and other than with respect to capital profits, gains or losses carried to or sustained by a capital reserve in the case of investment trusts and venture capital trusts in accordance with the statement of recommended practice relating to investment trusts.

(D) Other UK taxpayers

(i) Taxation of chargeable gains

The further notes are denominated in sterling and on the assumption that they comprise normal commercial loans should fall within the definition of a qualifying corporate bond in section 117(1) of the Taxation of Chargeable Gains Act 1992 and accordingly any gain made on disposal or redemption of the further notes will not be a chargeable gain or allowable loss.

(ii) Accrued income scheme

The transfer of further notes by a holder who is not within the charge to UK corporation tax and is resident or ordinarily resident for tax purposes in the UK or carrying on a trade through a branch or agency to which the applicable further notes are attributable may give rise to a charge to UK tax on income in respect of an amount treated under provisions relating to accrued income profits (contained in chapter 2 of Part 12 of ITA) as representing interest accrued on the further notes at the time of transfer.

(E) Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax will generally be payable on issue or transfer of further notes.

(F) UK provision of information requirements

Persons in the UK paying interest to or receiving interest on behalf of an individual may be required to provide certain information to HMRC regarding the identity of the individual entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

## 7. Netherlands taxation

(A) General

**The summary below is a general summary and the tax consequences as described here may not apply to a holder of further notes. Any potential investor should consult his own tax adviser for more information about the tax consequences of acquiring, owning and disposing of further notes in his particular circumstances.**

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, the ownership and disposition of further notes. It does not consider every aspect of taxation that may be relevant to a particular holder of further notes under special circumstances or who is subject to special treatment under applicable law. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law.

This summary is based on the tax laws of the Netherlands (unpublished case law not included) as they are in force and in effect on the date of this document, which laws are subject to change, perhaps with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to further notes is at arm's length.

(B) Withholding tax

All payments in respect of the further notes may be made free from withholding or deduction of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

(C) Taxes on income and capital gains

The summary set out in this section "Taxes on income and capital gains" only applies to a holder of further notes who is neither resident nor deemed to be resident in the Netherlands for the purposes of Dutch income tax or corporation tax, as the case may be, and, in the case of an individual, has not elected to be treated as a resident of the Netherlands for Dutch income tax purposes (a "non-resident holder of further notes").

(i) Individuals

A non-resident holder of further notes who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to

be derived from further notes, including any payment under further notes and any gain realised on the disposal of further notes, provided that (a) his further notes are not attributable to any enterprise, which is either managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, as the case may be, from which enterprise he derives profits, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder and (b) he does not derive benefits and is not deemed to derive benefits from further notes that are taxable as benefits from miscellaneous activities in the Netherlands (*resultaat uit overige werkzaamheden in Nederland*).

Benefits derived or deemed to be derived from further notes by a non-resident holder of further notes who is an individual and who satisfies condition (a) above, including any payment in respect of the further notes and any gain realised on the disposal thereof, are taxable as benefits from miscellaneous activities in the Netherlands if such holder, or an individual who is a connected person in relation to him as meant in article 3.91, paragraph 2, letter b, or letter c, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), has a substantial interest (*aanmerkelijk belang*) in the issuer.

A person has a substantial interest in the issuer if such person, either alone or, in the case of an individual, together with his partner (*partner*), if any, has, directly or indirectly, either the ownership of shares representing five per cent or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the issuer, or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent five per cent or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the issuer, or the ownership of profit participating certificates (*winstbewijzen*) that relate to five per cent or more of the annual profit of the issuer or to five per cent or more of the liquidation proceeds of the issuer.

A person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and such person's entitlement to such benefits is considered a share or a profit participating certificate, as the case may be.

Furthermore, a non-resident holder of further notes who is an individual and who satisfies condition (a) above may, *inter alia*, derive benefits from further notes that are taxable as benefits from miscellaneous activities in the following circumstances, if such activities are performed or deemed to be performed in the Netherlands (I) if his investment activities go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge (*voorkennis*) or comparable forms of special knowledge, or (II) he makes further notes available or is deemed to make further notes available, legally or in fact, directly or indirectly, to certain parties as meant in articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 under circumstances described there.

(ii) Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child that is under eighteen years of age, even if the child is resident in the Netherlands, are attributed to the parent who exercises the authority over the child, regardless of whether the child is resident in the Netherlands or not.

(iii) Entities

A non-resident holder of further notes other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from further notes, including any payment under further notes or any gain realised on the disposal of further notes, provided that (a) if such non-resident holder of further notes derives profits from an enterprise that is either managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise (other than as a holder of securities), its further notes are not attributable to such enterprise, and (b) such non-resident holder of further notes does not have a substantial interest in the issuer.

A person other than an individual has a substantial interest in the issuer, (I) if it has a substantial interest in the issuer (as described above under sub-paragraph (i)) or (II) if it has a deemed substantial interest in the issuer. A deemed substantial interest may be

present if its shares, profit participating certificates or rights to acquire shares or profit participating certificates in the issuer have been acquired by such person or are deemed to have been acquired by such person on a non-recognition basis.

(iv) General

Subject to the above, a non-resident holder of further notes will not be subject to income taxation in the Netherlands by reason only of the holding or sale or other transfer of further notes or otherwise in relation to the further notes.

(D) Gift and inheritance taxes

A person who acquires further notes as a gift, in form or in substance, or who acquires or is deemed to acquire further notes on the death of an individual, will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless:

- (i) the donor is, or the deceased was resident or deemed to be resident in the Netherlands for purposes of gift or inheritance tax, as the case may be; or
- (ii) the further notes are or were attributable to an enterprise or part of an enterprise that the donor or the deceased carried on through a permanent establishment or a permanent representative in the Netherlands at the time of the gift or the death of the deceased; or
- (iii) the donor made a gift of further notes, then became a resident or deemed resident of the Netherlands, and died as a resident or deemed resident of the Netherlands within 180 days after the date of the gift.

(E) Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by a holder of further notes in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of the further notes or the performance by the issuer of its obligations thereunder or under the further notes.

**8. EU directive on the taxation of savings**

Directive 2003/48/EC provides for the tax authorities of the Member States to provide each other with details of payments of interest and similar income made to individuals who are the beneficial owner of those payments, but permits Austria, Belgium and Luxembourg instead to impose a withholding tax on the payments concerned for a "transitional period". The Directive also provides that no such withholding tax should be levied where the beneficial owner of the payment authorises an exchange of information and/or where the beneficial owner presents a certificate from the tax authority of the Member State in which the beneficial owner is resident. A number of non-EU countries and certain dependent or associated territories have agreed to adopt similar measures (in certain cases on a reciprocal basis). The Directive does not preclude Member States from levying other types of withholding tax.

**9. Material contracts**

The following are summaries of the principal contents of all the material contracts, not being contracts entered into in the ordinary course of business, that could result in a member of the group being under an obligation or entitlement that is material to the issuer or the company's ability to meet its obligations to holders of the further notes:

- (1) 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, being a facility agreement, whereby following subsequent amendments:
  - (a) the lenders agreed to provide a facility comprising tranche A in the amount of \$41,000,000 and tranche B in the amount of \$4,000,000 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 (but not yet drawn);

- (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 (reduced with effect from 21 June 2007 to 2.75 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 September 2010 - 6 instalments of \$2,500,000 (or, if earlier, following demand from the Agent in the event of an event of default) and the lenders (subsequently) agreed that REA Kaltim may prepay amounts drawn under tranche A of the facility in order of maturity (in accordance with which right REA Kaltim has made prepayments to an extent that at the date of this document the balance outstanding under tranche A of the facility amounts to \$15,416,666) ;
  - (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;
- (2) dated 12 September 2005 between (i) the company and (ii) The Law Debenture Trust Corporation plc, being a trust deed, whereby the company constituted \$30,000,000 of 7.5 per cent dollar notes 2012/14; such notes are unsecured obligations of the company, bear interest at the fixed rate of 7.5 per cent per annum and are redeemable by three equal annual instalments commencing 31 December 2012 (provided that the amount of notes to be redeemed on any redemption date will be subject to reduction to the extent of notes previously purchased and cancelled);
- (3) 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 holder of \$19,000,000 nominal of dollar notes (the "Zukerman dollar notes") and (ii) the company, being a supplemental rights agreement, whereby it was agreed that:
- (a) subject to certain limitations, the company 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 the company 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 the company 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 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 summarised at subparagraph (2) above (the "trust deed") unless the entire outstanding holding of Zukerman dollar notes is to be acquired by the company; and
  - (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 the company and (III) if UK withholding tax becomes payable in respect of any principal or interest payments on the Zukerman dollar notes, the company 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;

- (4) dated 27 November 2006 between (i) the company, (ii) the issuer and (iii) REA Kaltim, being a deed of assignment of intra-group loans, whereby the company agreed to assign to the issuer all rights which the company had as regards an aggregate of \$30,500,000 of existing loans made by the company to REA Kaltim (save for the right to receive the interest accrued thereon up to the date on which the assignment became effective) for a consideration of \$30,500,000 to remain outstanding as an intra-group loan owed by the issuer to the company, such loan to be unsecured, to bear interest at a rate per annum equal to 2.75 per cent above the Singapore Inter Bank Offered Rate from time to time and to be repayable as and when the cash requirements and covenant obligations of the issuer so permit and in any event on 31 December 2017 (or earlier in the event of default);
- (5) dated 1 December 2006 between (i) the issuer, (ii) the company and (iii) Capita Trust Company Limited, being a trust deed, whereby the issuer constituted £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17; such notes are obligations of the issuer secured principally on loans made by the issuer to REA Kaltim, are unconditionally and irrevocably guaranteed by the company, bear interest at the fixed rate of 9.5 per cent per annum and are redeemable by three equal annual instalments commencing 31 December 2015 (provided that the amount of notes to be redeemed on any redemption date will be subject to reduction to the extent of notes previously purchased and cancelled save in so far as such notes were purchased and cancelled prior to a previous redemption date and taken into account in reducing the sterling note redemption requirement in relation to that previous redemption date);
- (6) dated, respectively, 13 February 2007 and 14 February 2007 between (i) Australia and New Zealand Banking Group Limited ("ANZ") and (ii) REA Kaltim, being a master agreement (in the form of the International Swaps and Derivatives Association, Inc 2002 Master Agreement) and confirmatory letter, whereby ANZ agreed to pay to REA Kaltim on 27 June and 27 December of each year up to and including 27 December 2015 (or, if either party should so elect, 10 February 2012) (the "termination date") the sum of £1,145,683 and on the termination date the further sum of £22,000,000 in consideration of the agreement of REA Kaltim to pay to ANZ on the termination date the sum of \$42,889,000 together with interest thereon semi-annually in arrear on 27 June and 27 December of each year up to and including the termination date at the rate of 10.568 per cent per annum;
- (7) dated 14 February 2007 between (i) the issuer, (ii) REA Kaltim and (iii) Australia and New Zealand Banking Group Limited ("ANZ"), being a subordination deed, whereby the issuer agreed to subordinate indebtedness owed to it by REA Kaltim to amounts owed by REA Kaltim to ANZ pursuant to the contract summarised at sub-paragraph (6) above upon terms that, for so long as REA Kaltim has obligations outstanding to ANZ pursuant to that contract, no action may be taken by the issuer to enforce recovery of amounts due to it from REA Kaltim;
- (8) dated 20 June 2007 between (i) the issuer (as subordinated lender), (ii) REA Kaltim (as borrower) and (iii) PT Bank Rabobank International Indonesia, PT ANZ Panin Bank and PT Bank Niaga Tbk (as senior lenders), being a subordination deed, whereby the issuer agreed to subordinate indebtedness owed to it by REA Kaltim to indebtedness owed by REA Kaltim to the senior lenders pursuant to the contract summarised at sub-paragraph (1) above upon terms that, for so long as REA Kaltim remains indebted to the senior lenders pursuant to that contract, payments by REA Kaltim in respect of indebtedness owed to the issuer are prohibited (save that, absent an event of default, REA Kaltim may make the interest payments provided for in the contract summarised at sub-paragraph (9) below) and no action may be taken by the issuer to enforce recovery of amounts due to it from REA Kaltim;
- (9) dated 16 August 2007 between (i) the issuer, (ii) REA Kaltim and (iii) the company, being an agreement as to amended and restated loan terms and ongoing loan agreement, whereby the parties amended and restated the terms of an agreement as to amended and restated loan terms and ongoing loan agreement dated 27 November 2006 and the issuer and REA Kaltim agreed that:

- (a) the terms applicable to a \$20,000,000 loan from the issuer to REA Kaltim be amended and restated so that the loan would be unsecured, would bear interest at a rate per annum equal to the aggregate of the applicable margin (as defined below) plus 2.75 per cent above the Singapore Inter Bank Offered Rate from time to time and would be repayable at par in one bullet payment on 31 December 2017;
- (b) the terms applicable to a \$10,500,000 loan from the issuer to REA be amended and restated so that the loan would be unsecured, would bear interest at a rate per annum equal to the aggregate of the applicable margin (as defined below) plus 2.75 per cent above the Singapore Inter Bank Offered Rate from time to time and would be repayable at par by one or more instalments as rapidly as the cash resources available to REA Kaltim permit (but subject to due compliance by REA Kaltim with any applicable banking or other loan covenants and to appropriate provision for the financing of REA Kaltim's planned extension development programme) and in any event on 31 December 2017;
- (c) the terms applicable to a £385,000 loan from the issuer to REA Kaltim (being a loan in an amount equal to the aggregate amount of the share premium contributions of £385,000 made by the company to the issuer) be amended and restated so that the loan would be unsecured, would bear interest at a rate per annum equal to the aggregate of the applicable margin (as defined below) plus 9.5 per cent per annum and would be repayable at par in one bullet payment on 31 December 2017;
- (d) the terms applicable to loans from the issuer to REA Kaltim funded from the proceeds of issue of sterling notes (including loans totalling £22,000,000 from the proceeds of issue of the original notes) be amended and restated so that the loans would be treated as booked in principal amounts equal to the par values of the notes from which the relative proceeds derived, would be unsecured, would bear interest at a rate per annum equal to the aggregate of the applicable margin (as defined below) plus 10.25 per cent per annum and would be repayable at par by three equal annual instalments commencing on 31 December 2015;
- (e) any further advances made by the issuer to REA Kaltim (in addition to those referred to at (a) to (d) above) would be unsecured and made upon terms that:
  - (I) where the advance is financed by the issuer out of new borrowings ("funding borrowings"), the advance would be denominated (and repayable) in the currency of the funding borrowings, would bear interest at a rate per annum equal to the applicable margin (as defined below) plus the rate applicable to the funding borrowings, plus, where the funding borrowings are guaranteed by the issuer, the guarantee fee (if any) payable by the issuer in respect of such guarantee, and would be repayable at such discount or premium as matches the discount or premium (if any) applicable on repayment of the funding borrowings and in accordance with a schedule or in one bullet payment that matches the repayment terms applicable to the funding borrowings; and
  - (II) where the advance is financed out of the issuer's own resources, the advance would be denominated (and repayable) in sterling, would bear interest at a rate per annum equal to the applicable margin (as defined below) plus 9.5 per cent and would be repayable at par in one bullet payment on 31 December 2017;

and, further, so that all such loans and advances shall be repayable early in the event of default by REA Kaltim and may be prepaid at the option of REA Kaltim; for the foregoing purposes, the "applicable margin" means the margin determined by Transfer Pricing Associates (an independent company established in Amsterdam and specialising in transfer pricing) as being an arm's length margin reasonably necessary to compensate the issuer for (i) its equity risks and (ii) its involvement in the group financing activities;

- (10) dated 29 July 2008 between (i) the company and (ii) the issuer, being a loan agreement, whereby the company agreed that, upon completion of the issue of the initial tranche of the further notes, the company will make a further loan of \$6,000,000 to the issuer and that the resultant aggregate indebtedness of the

issuer to the company of \$36,500,000 would be consolidated as one unsecured loan bearing interest at a floating rate equal to 2.75 per cent per annum above the Singapore Inter Bank Offered Rate from time to time and repayable as and when the cash requirements and covenant obligations of the issuer so permit and in any event on 31 December 2017; and

- (11) dated 29 July 2008 between (i) the issuer and the company and (ii) Guy Butler being a placing agreement made by way of letter, whereby:
  - (a) Guy Butler, as agent of the issuer, has agreed to use its reasonable endeavours to procure placees to subscribe up to £15,000,000 nominal of further notes for cash at 99.8682 per cent of par, such subscription being conditional upon the creation of the further notes and admission of the further notes placed to the Official List and to trading on the Regulated Market of the London Stock Exchange becoming effective by not later than 9.30 am on 26 September 2008; and
  - (b) the company agreed to pay Guy Butler a commission of 1¾ per cent of the nominal value of the sterling notes subscribed by the placees (plus VAT) and to bear all expenses of and incidental to the placing.

#### **10. Group investments**

(A) Since 31 December 2007, the group has acquired the whole of the issued share capital of PT Putra Bongan Jaya ("PBJ") for a consideration of some \$3,500,000 to be paid in cash in full on finalisation of formal documentation. PBJ holds land allocations in East Kalimantan as further described under "Land areas" in Part VI above but otherwise has no assets and no liabilities other than in respect of shareholder loans (the rights as regards which will be formally assigned by the previous shareholders to the group on finalisation of documentation without additional consideration). Further costs, to be funded by way of loans from group companies, will be incurred by PBJ in completing titling of its land allocation.

The group has also, since 31 December 2007, agreed in principle to acquire the whole of the issued share capital of PT Prasetia Utama ("PU") for a consideration of some \$7,300,000 to be satisfied in cash as to 50 per cent on signature of a binding sale and purchase agreement and as to the other 50 per cent on completion of the acquisition following receipt of necessary Indonesian regulatory approvals. PU holds land allocations in East Kalimantan as further described under "Land areas" in Part VI above but otherwise has no assets and no liabilities other than in respect of shareholder loans (the rights as regards which will be assigned by the current shareholders to the group on completion of the acquisition without additional consideration). The titling process as regards the land allocated to PU is complete.

(B) Save as referred to in paragraph (A) above and for normal capital expenditure, as described in Part VI above, no material investments have been made by the group since 31 December 2007, being the end of the last period for which the company has published financial statements, and no commitments have been made as respects any future such investments.

#### **11. Miscellaneous**

(A) No significant change in financial or trading position

There has been no significant change in the financial or trading position of the issuer or of the group since 31 December 2007, being the end of the last financial period of the company for which audited financial information has been published. Nor has there been any recent event particular to the issuer or the company that is to a material extent relevant to the solvency of the issuer or the company.

(B) No adverse change in prospects

There has been no material adverse change in the prospects of the group or the issuer since 31 December 2007, being the end of the last period for which the company has published audited financial statements.

(C) Litigation

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 issuer or of the group nor is the issuer or the company aware of any such proceedings pending or threatened.

(D) Expenses

Pursuant to the placing agreement summarised at contract (11) under "Material contracts" above, the company has agreed to pay a commission to Guy Butler of 1¾ per cent in aggregate in respect of the nominal value of further notes issued pursuant to the placing agreement. The company and the issuer also reserve the right to pay commission in respect of later issues of the further notes. The other costs and expenses of and incidental to the proposed issue of the initial tranche of the further notes, which will be paid by the company, including the costs involved in the preparation and circulation of this document, are estimated to amount in total to £200,000. All costs and expenses incurred by the company in connection with the proposed issue will be recharged to the Indonesian debtor subsidiaries to which the proceeds of the issue are on-lent by the issuer.

(E) Persons involved in the issue

No person involved in the proposed issue of further notes has an interest in the issue that is material.

(F) Audited information

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

(G) Registrars

The registrars of the company are Capita Registrars of Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0GA.

(H) Third party information

The company and the issuer confirm 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 above and "Revenues and markets" in Part VI above) 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.

**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 LLP, at Broadwalk House, 5 Appold Street, London EC2A 2HA for so long as any of the further notes remain capable of issue pursuant to this prospectus:

- (i) the memorandum and articles of association of the company;
- (ii) the articles of association of the issuer;
- (iii) the annual reports of the company for the financial period 7 November to 31 December 2006 and for the financial year ended 31 December 2007;
- (iv) a circular dated 29 July 2008 from the company to the holders of the original notes providing information as regards the proposed creation and issue of the further notes, the proposed amendments to the original trust deed and the REA Kaltim loan agreement, and convening an extraordinary general meeting of the holders of the original notes for 21 August 2008; and
- (v) a draft of the second supplemental trust deed amending and restating the original trust deed together with drafts of the deed of pledge of receivables and the fiduciary assignment of receivables by which the further security for the sterling notes will be created.

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## DEFINITIONS

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

"amended and restated trust deed"	the original trust deed, as proposed to be amended and restated by a second supplemental trust deed made between the parties to the original trust deed, constituting the sterling notes
"board"	the board of directors of the company
"Capita Registrars"	a trading division of Capita IRG Plc
"CIF"	carriage, insurance and freight included
"Combined Code"	the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2006
"company" or "REA"	R.E.A. Holdings plc
"CPO"	crude palm oil
"CPKO"	crude palm kernel oil
"CREST"	the computerised settlement system operated by Euroclear UK & Ireland Limited to facilitate the transfer of title to securities in uncertificated form
"directors"	the directors of the company
"dollar notes"	the \$30,000,000 nominal of 7.5 per cent dollar notes 2012/14 of the company that are in issue
"Emba"	Emba Holdings Limited
"FFB"	oil palm fresh fruit bunches
"FOB"	free on board
"further notes"	£28,000,000 nominal of 9.5 per cent guaranteed sterling notes of the issuer (to be irrevocably and unconditionally guaranteed by the company) forming a single series with and to rank <i>pari passu</i> with the original notes, being the subject of this prospectus, of which an initial tranche of up to £15,000,000 nominal is proposed to be issued for cash at 99.8682 per cent of par and the balance is proposed to be issued for cash, as markets permit, during the period of twelve months following the date of this document and thereafter for such further period as the directors may determine and for which the issuer shall have filed and published a valid prospectus (or base prospectus) in compliance with the Prospectus Rules
"group"	the company and its subsidiaries
"Guy Butler"	Guy Butler Limited of 2 Broadgate, London EC2M 7UR
"IFRS"	International Financial Reporting Standards

"Indonesian debtor subsidiary"	any subsidiary of the company incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit which is indebted to the issuer (for so long as it is so indebted)
"issuer"	REA Finance B.V., a wholly owned subsidiary of the company incorporated as a private company with limited liability under the laws of the Netherlands
"London Stock Exchange"	London Stock Exchange plc
"net debt"	borrowings and other indebtedness of the group (other than intra-group indebtedness), less cash, bank deposits and similar balances
"Official List"	the list maintained by the Financial Services Authority in accordance with section 74(1) of the Financial Services and Markets Act 2000
"ordinary shares"	ordinary shares of 25p each in the capital of the company
"original notes"	the £22,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 of the issuer (irrevocably and unconditionally guaranteed by the company) that are already in issue
"original trust deed"	the trust deed dated 1 December 2006 made between the issuer (as Issuer), the company (as Guarantor) and Capita Trust Company Limited (as Trustee), as amended by a first supplemental trust deed dated 6 August 2007 made between the same parties, constituting the original notes
"preference shares"	9 per cent cumulative preference shares of £1 each in the capital of the company
"proposed issue"	the proposed issue of up to £28,000,000 nominal of further notes
"Prospectus Rules"	the Prospectus Rules of the Financial Services Authority
"REA Kaltim"	P.T. REA Kaltim Plantations, the principal operating subsidiary of the company, incorporated with limited liability under the laws of the Republic of Indonesia
"REA Kaltim loan agreement"	the agreement as to amended and restated loan terms and ongoing loan agreement made between the issuer, REA Kaltim and the company governing loans made by the issuer to REA Kaltim, as summarised at contract (9) under "Material contracts" in Part IX above
"sterling notes"	the original notes and/or the further notes as the context may require
"UK GAAP"	UK Generally Accepted Accounting Policies

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## **CURRENCY**

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

Dated: 29 July 2008