

This document comprises a prospectus relating to R.E.A. Holdings plc in respect of 9,000,000 new 9 per cent cumulative preference shares in the capital of R.E.A. Holdings plc proposed to be issued, to the extent that markets permit, pursuant to a placing. 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. This document will be made available to the public in accordance with the Prospectus Rules.

R.E.A. Holdings plc and its directors (whose names appear in the section entitled "Directors" commencing on page 52 of this document) accept responsibility for the information contained in this document. To the best of the knowledge of R.E.A. Holdings plc and its directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Applications will be made to the Financial Services Authority and to London Stock Exchange plc for up to 9,000,000 new 9 per cent cumulative preference shares of £1 each in the capital of R.E.A. Holdings plc to be admitted to the standard listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. As respects the new preference shares the subject of the placing, it is expected that such admission will become effective and that dealings will commence on 29 October 2010.

R.E.A. Holdings plc

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

Proposed issue of up to 9,000,000 new 9 per cent cumulative preference shares of £1 each in the capital of the company to be issued, to the extent that markets permit, by way of a placing at 100p per share

The new preference shares will, upon issue, rank *pari passu* in all respects with the 9 per cent cumulative preference shares of £1 each in the capital of R.E.A. Holdings plc that are already in issue and are admitted to the standard listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, save that the preference dividend payable in respect of new preference shares on the first preference dividend payment date following the date of issue of such shares will be that proportion of 4.5p per share which is equal to the proportion that the period from the date of issue to such first preference dividend payment date is of six months.

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, any new preference shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada, Japan, the Republic of South Africa or the United States. The new preference shares have not been and will not be registered under the US Securities Act of 1933, as amended, with any securities regulatory authority of any state or other jurisdiction of the United States or under the applicable securities laws of Australia, Canada, Japan or the Republic of South Africa. Subject to certain exceptions, the new preference shares may not be offered or sold in Australia, Canada, Japan, the Republic of South Africa or the United States or to, or for the account or benefit of, any resident of Australia, Canada, Japan, the Republic of South Africa or the United States.

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Part I Summary

1. General

The following summary information should be read as an introduction to and in conjunction with the full text of this document including the information incorporated by reference. Any decision by a prospective investor to invest in preference shares should be based on consideration of this document as a whole.

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 plaintiff investor might, under the national legislation of the member state where the claim is brought, have to bear the costs of translating this document before the legal proceedings are initiated.

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

2. Business of the group

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of CPO and by-products from fruit harvested from its oil palms. The area of oil palms planted or under development at 31 December 2009 amounted to some 31,000 hectares of which some 22,000 hectares were classified as mature from 1 January 2010. The FFB crop harvested in 2009 amounted to 490,000 tonnes.

During 2008, the directors decided to augment the traditional oil palm operations of the group by developing a modest coal mining operation also based in East Kalimantan. Following this decision, the group has acquired rights in respect of two coal concessions near Tanah Grogot in the southern part of East Kalimantan and in respect of a further concession near Kota Bangun in the central part of East Kalimantan.

3. Proposed issue and placing

The company proposes to issue up to 9,000,000 new preference shares, such shares to be issued, to the extent that markets permit, pursuant to a placing at 100p per share. Guy Butler has undertaken to use its reasonable endeavours to effect the placing on the company's behalf.

It is expected that the results of the placing will be announced on 28 October 2010 and that dealings in the new preference shares issued pursuant to the placing will commence on 29 October 2010.

The placing is conditional upon admission of the new preference shares issued pursuant to the placing to the standard listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

To the extent that the full 9,000,000 new preference shares are not placed pursuant to the placing, the company may consider

one or more further placings in respect of the balance over the course of the following twelve months, subject to market conditions prevailing at the time and compliance with all relevant regulatory requirements.

4. **Reasons for the proposed issue and use of proceeds**

The capital of the group currently comprises the issued ordinary shares, the issued preference shares, the dollar notes, the sterling notes and other borrowings. The share capital represents permanent capital (the preference shares are not redeemable shares). The balance of the capital is debt, which is repayable. In particular, the dollar notes and the sterling notes, which represent the major part of the debt capital of the group, are repayable by instalments over a six year period commencing 31 December 2012.

As noted under "Working capital" in Part V (Financial information) below, the company is of the opinion that it has sufficient working capital for its present requirements, that is for at least twelve months following the date of this document. Looking beyond twelve months, the directors believe that the group should be in a position to meet its debt repayments as these fall due without the need to raise any additional capital but the directors also believe that the group can comfortably support the current level of prior ranking capital (comprising the aggregate of the issued preference shares, the dollar notes, the sterling notes and other borrowings). Since the leverage that that capital provides will anyway reduce if, as the directors hope will be the case, shareholders' funds continue to grow, the directors believe that the interests of the holders of the ordinary shares will be better served by replacing maturing borrowings with new prior ranking capital (thus increasing the cash available to the group for future expansion and payment of dividends) than by paying off such borrowings with cash.

Accordingly, the directors consider that it is prudent, when market conditions permit, to retire existing debt and replace it with preference share capital or new debt of a longer tenor ahead of such retirement and replacement becoming necessary. The proposed issue of new preference shares is intended to be a first step in this direction.

Reflecting the above, the net proceeds of the proposed issue will be applied in reducing existing group indebtedness and related engagements (being cash flow hedges against dollars of the sterling component of the group's indebtedness) including, to the extent prudent, in purchasing dollar notes and/or sterling notes.

5. **Rights attaching to the new preference shares**

The preference shares entitle the holders to be paid out of the profits of the company available for dividend and resolved to be distributed, in priority to the payment of any dividend to the holders of any other class of shares in the capital of the company, a fixed cumulative preferential dividend of 9 per cent per annum on the nominal amount paid up on such preference shares payable half-yearly in equal amounts on 30 June and 31 December. The preference shares are not redeemable.

The new preference shares will, upon issue, rank *pari passu* in all respects with the preference shares already in issue, save that the preference dividend payable in respect of new preference shares on the first preference dividend payment date

following the date of issue of such shares will be that proportion of 4.5p per share which is equal to the proportion that the period from the date of issue to such first preference dividend payment date is of six months.

6. Risk factors

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

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

- the exposure of the group's agricultural operations to adverse climatic conditions, pests, diseases and potential damage from logistical disruptions;
- the financial dependence of the agricultural 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 operations in a region that elsewhere includes substantial areas of unspoilt rain forest;
- regulatory, country and locality risks that arise from the fact that substantially all of the group's assets are located in the East Kalimantan province of Indonesia; and
- failure by the group's new coal operations to achieve the anticipated results with a consequent loss of capital invested in those operations.

7. Summary historic financial information

The following table provides summary financial information concerning the group for the three years ended 31 December 2009 and has been compiled from figures extracted without material adjustment from the statutory accounts included in the annual reports of the company for the three years ended 31 December 2009. Such statutory accounts were prepared in accordance with IFRS and were audited. The summary financial information itself has not been audited.

	As at 31 December 2007 \$'000	As at 31 December 2008 \$'000	As at 31 December 2009 \$'000
<u>Summary of net assets</u>			
Non-current assets	236,713	278,227	322,212
Current assets	50,557	51,983	49,766
Current liabilities	(13,565)	(24,200)	(24,161)
Non-current liabilities	<u>(125,072)</u>	<u>(143,399)</u>	<u>(153,149)</u>
	<u>148,633</u>	<u>162,611</u>	<u>194,668</u>
	Year to 31 December 2007 \$'000	Year to 31 December 2008 \$'000	Year to 31 December 2009 \$'000
<u>Summary of results (before taxation and minority interests)</u>			
Revenue	<u>57,600</u>	<u>79,630</u>	<u>78,885</u>
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	43,346	45,700	41,290
Depreciation and amortisation	(1,990)	(2,477)	(3,337)
Change in fair value of biological assets	<u>8,030</u>	<u>(2,660)</u>	<u>9,765</u>
Operating profit	49,386	40,563	47,718
Investment revenues and finance costs	<u>(2,376)</u>	<u>(4,254)</u>	<u>(6,001)</u>
Profit before taxation and minority interests	<u>47,010</u>	<u>36,309</u>	<u>41,717</u>

8. **Summary half
yearly financial
information**

The following table provides summary financial information concerning the group for the six months ended 30 June 2010, with comparative figures for the six months ended 30 June 2009 and the year ended 31 December 2009, and has been compiled from figures extracted without material adjustment from the half yearly report of the company for the six months ended 30 June 2010 and from the statutory accounts included in the annual report of the company for the year ended 31 December 2009. Such half yearly report and statutory accounts were prepared in accordance with IFRS. Neither such half yearly report nor this summary financial information has been audited.

	As at 31 December 2009 \$'000	As at 30 June 2009 \$'000	As at 30 June 2010 \$'000
<u>Summary of net assets</u>			
Non-current assets	322,212	290,931	338,491
Current assets	49,766	43,686	54,578
Current liabilities	(24,161)	(12,634)	(21,716)
Non-current liabilities	<u>(153,149)</u>	<u>(147,964)</u>	<u>(168,429)</u>
	<u>194,668</u>	<u>174,019</u>	<u>202,924</u>

	Year to 31 December 2009 \$'000	6 months to 30 June 2009 \$'000	6 months to 30 June 2010 \$'000
<u>Summary of results (before taxation and minority interests)</u>			
Revenue	<u>78,885</u>	<u>32,441</u>	<u>50,290</u>
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	41,290	15,908	24,509
Depreciation and amortisation	(3,337)	(1,446)	(1,851)
Change in fair value of biological assets	<u>9,765</u>	<u>1,523</u>	<u>640</u>
Operating profit	47,718	15,985	23,298
Investment revenues and finance costs	<u>(6,001)</u>	<u>(2,666)</u>	<u>(3,242)</u>
Profit before taxation and minority interests	<u>41,717</u>	<u>13,319</u>	<u>20,056</u>

Part II Risk factors

1. General

Before making any investment decisions, prospective investors should carefully consider all of the information in this document including the risks and uncertainties described below (which are set out in no particular order). Those risks and uncertainties are considered by the directors to be the material risks and uncertainties currently faced by the group or applicable to an investment in preference shares. Such risks and uncertainties are not the only ones currently so faced or applicable and other risks and uncertainties not currently known to the directors or that the directors currently deem immaterial may also have a material adverse effect on the group or on such an investment. Potential investors should carefully consider whether an investment in preference shares is suitable for them in light of the information in this document and their personal circumstances.

2. Investment in preference shares

Holdings of preference shares constitute investments in the capital of the company. The value of such investments may be affected by changes in economic conditions including, *inter alia*, levels of interest rates, political events and trends, changes in the performance of the industry as a whole and of the company's competitors, tax laws and rates of inflation which are outside the group's control. The value of an investment in preference shares may also be affected by changes or perceived changes in the group's performance and prospects as a result of announcements made and reports published by the company, speculation about the group's business or industries in which the group operates in the press, media or the investment community or the publication by investment analysts of research reports concerning the group's business or such industries.

Although the preference shares rank ahead of the ordinary shares on a return of capital, the group has substantial indebtedness and that indebtedness ranks for repayment ahead of any rights of the preference shares to a return of capital. Although the preference shares carry a cumulative right to annual dividends at a fixed rate, and no dividends may be paid in respect of the ordinary shares while any dividend in respect of the preference shares is in arrears, dividends payable in respect of the preference shares are payable only when, and if, declared by the directors.

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

3. Agricultural operations

Climatic factors

Although the group's agricultural operations are located in an area of high rainfall with sunlight hours well suited to the cultivation of oil palm, climatic conditions vary from year to year and setbacks are possible. Unusually high levels of rainfall can disrupt estate operations and result in harvesting delays with loss of oil palm fruit or deterioration in fruit quality. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit. Over a long

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

Low levels of rainfall can also disrupt and, in an extreme situation (not to date experienced by the group), could bring to a standstill the river transport upon which the group is critically dependent for estate supplies and the evacuation of CPO and CPKO.

Cultivation risks

As in any agricultural business, there are risks that crops from the group's estate operations may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

Other operational factors

The group's agricultural 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 are likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop. The group endeavours to maintain resilience in its palm oil mills with two mills 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 a material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of agricultural 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 agricultural 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 for the agricultural operations to cover those risks against which the directors consider that it is economic to insure, however no assurance can be given that such insurance is in fact adequate, will continue to be available or that it will be available at economically reasonable premiums. Certain risks (including the risk of fire in planted areas on the group's estates), for which insurance cover is either not available or would, in the opinion of the directors, be disproportionately expensive, are not insured. The realisation of any significant uninsured liabilities in connection with the group's activities could result in the group sustaining material losses.

Produce prices

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

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although 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, when such measures materially reduce the profitability of oil palm cultivation, they 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 future measures affecting sales of CPO and CPKO will not seriously diminish profit margins.

The directors were encouraged that the significant rise in CPO and CPKO prices during 2007 and the early months of 2008 did not lead to a re-imposition of such restrictions or imposts. Instead, the Indonesian government continued to allow the free export of CPO and CPKO but introduced a sliding scale of duties on CPO and CPKO exports. Furthermore, the starting point for this sliding scale was set at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil. Against this, the directors note that there have been Indonesian press reports that the Indonesian government may take steps to encourage domestic downstream processing of CPO and CPKO and may again impose domestic sale obligations on oil palm growers by 2015.

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

Expansion

The group is planning further extension planting of oil palm. The directors hope that unplanted land held by or allocated to the group will become available for planting ahead of the land becoming needed for development and that the development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further prior charge funding. Should, however, land or cash availability fall short of

expectations and the group be unable to secure alternative land or funding, the extension planting programme, upon which the continued growth of the group's agricultural operations will in part depend, may be delayed or curtailed.

Any shortfall in achieving planned extensions of the group's planted areas would be likely to impact negatively the annual revaluation of the group's biological assets, the movements upon which are taken to income. 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.

Environmental, social and governance practices

The group recognises that the agricultural operations are both a large employer and have significant economic importance for local communities in the areas of the group's operations. This imposes environmental, social and governance obligations which bring with them risks that any failure by the group to meet the standards expected of it may result in reputational and financial damage. The group seeks to mitigate such risks by establishing standard procedures to ensure that it meets its obligations, to monitor performance against those standards and to investigate thoroughly and take action to prevent recurrence in respect of any failures identified.

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

Whilst the group is committed to sustainable oil palm development, takes great care to follow best practice on environmental issues, is establishing conservation reserves and is working towards receiving accreditation from the Roundtable on Sustainable Palm Oil, there can be no assurance that negative publicity or attention from environmental groups in respect of the group or the palm oil industry in general will not cause reputational damage to the group with a consequential material adverse effect on the group.

Local relations

The agricultural 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 the area of its agricultural operations. The group endeavours to mitigate this risk by liaising regularly with representatives of surrounding villages and by seeking to improve local living standards through mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group, when possible, gives priority to applications for employment from members of the local population and supports specific initiatives to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and to promote smallholder development of oil palm plantings.

4. **Coal operations**

Development of the group's coal operations is still at an early stage. The gross assets of the operations at 30 June 2010 represented less than four per cent of the group's gross assets and the operations made no significant contribution to group revenues during 2009 or the six months ended 30 June 2010. The directors therefore believe that the most material risk attaching to the coal operations is the risk that the directors, with no prior experience of mining, may have misjudged the potential of the operations and that the operations do not become commercially viable. In that event some or all of the group capital invested in the operations may be lost (although the directors believe that the group could recover monies from a resale of the concession rights so far acquired so that a total loss of invested capital is unlikely).

If the coal operations do become commercially viable, the material risks and uncertainties specific to coal that the directors currently foresee are as described below.

Operational risks

Delivery volumes will be dependent upon efficiency of production and of transport of extracted coal from mines to points of sale. Both production and transport can be disrupted by heavy rains, such as are common in East Kalimantan, and heavy seas can cause delays to the barging of coal to its point of sale. Failure to load export shipments to an agreed schedule may result in demurrage claims which may be material.

Although mining plans are based on geological assessments, such assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. Unforeseen extraction complications can occur and may cause cost overruns and delays.

Although the group maintains insurance for the coal operations to cover those risks against which the directors consider that it is economic to insure, not all risks are insured. In particular, the group does not currently insure against spontaneous combustion of coal held in stockpiles. Whilst the risk of such spontaneous combustion is considered remote for coal of the calorific value that the group is currently mining or is intending to mine, were such spontaneous combustion to occur, the group could suffer material loss.

Price risk

The profitability and cash flow of the coal operations will depend both upon world prices of coal and upon the group's ability to sell its coal at price levels comparable with such world prices. Coal is a primary commodity and as such is 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.

Coal is sold on the basis of its calorific value and other aspects of its chemical composition. Supply and demand for specific grades of coal and consequent pricing may not necessarily reflect overall coal market trends and the group may be adversely affected if it is unable to supply coal within the specifications that are at any particular time in demand.

The Indonesian government has stated that it intends to impose obligations on coal concession holders to sell domestically a proportion of the coal that they mine. If domestic sales of coal have to be made at prices that are below world market prices (and it is not yet known whether this will be the case) the group's prospective revenues from coal sales will be reduced.

Environmental practices

Open cast coal mining, such as will be conducted on the coal concessions in which the group has invested, involves the removal of substantial volumes of overburden to obtain access to the coal deposits. The prospective areas to be mined by the group do not cover a large area and the group is committed to international standards of best environmental practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could be adversely affected by environmental criticisms of the coal mining industry as a whole.

5. General

Currency

CPO, CPKO and coal are essentially dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's operations are effectively dollar denominated.

All of the group's borrowings, other than the £37 million nominal of sterling notes (as respects which the group has entered into sterling dollar debt swap arrangements) and drawings under a recently agreed rupiah facility with PT Bank DBS Indonesia, are also dollar denominated and over 40 per cent of the group's costs (including fertiliser and machinery inputs) is dollar denominated or linked.

Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiah and sterling may, if such currencies strengthen against the 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.

The group's hedging strategy as respects the sterling notes may itself give rise to risk as an Indonesian tax assessment recently received by the group claims (contrary to the professional advice obtained by the group) that mark to market losses on the hedge or the group's sterling borrowings may not be deducted from chargeable profits for Indonesian tax purposes.

Counterparty risk

Export sales of CPO and CPKO are made either against letters of credit or on the basis of cash against documents. Export sales of coal are likely to be made on a similar basis. Credit risks for the group on such sales are therefore limited. However, domestic sales of CPO, CPKO and coal generally require (or will require) the group to provide some credit to buyers. The group seeks to limit the counterparty risk that this entails by effective credit controls. Such controls include regular reviews of buyer creditworthiness and limits on the term and amount of credit that may be extended to any one buyer and in total.

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation) could have a negative impact on the group's activities. However, the directors are not currently aware of any specific changes (including, in particular, the enactment in 2008 of a new Indonesian mining law and the subsequent publication of regulations implementing that law) that would adversely affect the group to a material extent.

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. Moreover, agricultural land and mining rights held by the group are subject to the satisfaction by the group of various continuing conditions, including, as respects agricultural land, conditions requiring the group to promote smallholder developments of oil palm.

Although the group endeavours to ensure that its activities are conducted only on the land areas, and within the terms of the licences, that it holds, licensing rules change frequently and boundaries of large land areas are not always clearly demarcated. There is therefore always a risk that the group may inadvertently, and to a limited extent, conduct operations for which it does not hold all necessary licences or operate on land for the use of which it does not have all necessary permits.

The group is currently applying to the relevant Indonesian authorities for approval to exercise this right to acquire direct 95 per cent ownership of Indonesian companies holding three coal mining concessions in which the group has invested. If approval is not given (and the directors have no reason to believe that this will be the case), the group will remain dependent upon the effectiveness of the legal arrangements through which its interests in the concessions are currently derived with the attendant risk referred to under "Miscellaneous relationships" below

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 and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. In the more recent past, Indonesia has been stable and the Indonesian economy has continued to grow.

Whilst freedom to operate in a stable and secure environment is critical to the group and 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 or

mining rights in which the group has invested or would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Miscellaneous relationships

The group is materially dependent upon its staff and employees. Whilst the group endeavours to manage this dependence by, *inter alia*, providing housing, health care, schooling and other benefits to its workforce and their dependents, having available staff and employees in the numbers and with the skills and commitment that are required is vital to the group's business and there can be no certainty that the group will continue to be able to attract and retain such staff and employees.

Relationships with shareholders in Indonesian group companies are also important to the group. The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have. Should such efforts fail and a breakdown in relations result, the group would be obliged to fall back on enforcing, in the Indonesian courts, the agreements governing its arrangements with its local partners with the uncertainties that any juridical process involves. Failure to enforce the agreements relating to the coal mining concessions in which the group holds interests could have a material negative impact because the concessions are at the moment legally owned by the group's local partners and, if the arrangements with those partners were to be repudiated (an eventuality that the directors consider highly unlikely), the group could lose its entire interest in the concessions.

Part III Proposed issue

- 1. Details of the proposed issue**

The company proposes to issue up to 9,000,000 new preference shares. Guy Butler has undertaken to use its reasonable endeavours to place such new preference shares on the company's behalf at a subscription price of 100p per share, payable in full in cash on allotment.

The placing is conditional upon admission of the new preference shares issued pursuant to the placing. It is expected such admission will become effective on 29 October 2010.

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 issued on 28 October 2010 and that dealings in the new preference shares issued pursuant to the placing, for normal settlement, will commence on 29 October 2010.

To the extent that the full 9,000,000 new preference shares are not placed pursuant to the placing, the company may consider one or more further placings in respect of the balance over the course of the following twelve months, subject to market conditions prevailing at the time and compliance with all relevant regulatory requirements. The directors would expect that any such further issue of new preference shares would be priced similarly to the new preference shares issued pursuant to the placing, subject to appropriate adjustment to reflect any change in the level of sterling interest rates and other market factors potentially affecting the value of fixed return securities of the company.

No arrangements have been agreed with any person as respects the co-ordination, underwriting or placing of any new preference shares not issued pursuant to the placing. The company reserves the right to pay commission to intermediaries in connection with the issue of such new preference shares.
- 2. Rights attaching to the new preference shares**

The preference shares entitle the holders to be paid out of the profits of the company available for dividend and resolved to be distributed, in priority to the payment of any dividend to the holders of any other class of shares in the capital of the company, a fixed cumulative preferential dividend of 9 per cent per annum on the nominal amount paid up on such preference shares payable half-yearly in equal amounts on 30 June and 31 December. The preference shares are not redeemable.

The new preference shares will, upon issue, rank *pari passu* in all respects with the preference shares already in issue, save that the preference dividend payable in respect of new preference shares on the first preference dividend payment date following the date of issue of such shares will be that proportion of 4.5p per share which is equal to the proportion that the period from the date of issue to such first preference dividend payment date is of six months.

The new preference shares will be issued in registered form and may be held in certificated form or in uncertificated form via CREST.
- 3. ISIN**

The International Security Identification Number assigned to the new preference shares to be issued pursuant to the placing is GB00B48CN287.

4. **Reasons for the proposed issue**

The capital of the group currently comprises the issued ordinary shares, the issued preference shares, the dollar notes, the sterling notes and other borrowings. The share capital represents permanent capital (the preference shares are not redeemable shares). The balance of the capital is debt, which is repayable. In particular, the dollar notes and the sterling notes, which represent the major part of the debt capital of the group, are repayable by instalments over a six year period commencing 31 December 2012.

As noted under "Working capital" in Part V (Financial information) below, the company is of the opinion that it has sufficient working capital for its present requirements, that is for at least twelve months following the date of this document. Looking beyond twelve months, the directors believe that the group should be in a position to meet its debt repayments as these fall due without the need to raise any additional capital but the directors also believe that the group can comfortably support the current level of prior ranking capital (comprising the aggregate of the issued preference shares, the dollar notes, the sterling notes and other borrowings). Since the leverage that that capital provides will anyway reduce if, as the directors hope will be the case, shareholders' funds continue to grow, the directors believe that the interests of the holders of the ordinary shares will be better served by replacing maturing borrowings with new prior ranking capital (thus increasing the cash available to the group for future expansion and payment of dividends) than by paying off such borrowings with cash.

Accordingly, the directors consider that it is prudent, when market conditions permit, to retire existing debt and replace it with preference share capital or new debt of a longer tenor ahead of such retirement and replacement becoming necessary. The proposed issue of new preference shares is intended to be a first step in this direction.

5. **Use of proceeds**

If all of the 9,000,000 new preference shares are issued pursuant to the placing, the gross proceeds will amount to £9 million providing net proceeds, after deduction of the estimated expenses of the placing, of £8.68 million.

Much of the group's existing indebtedness may be repaid without penalty only as it matures. However, the group is permitted to make market purchases of the dollar notes and the sterling notes, and any such notes purchased by the company must be cancelled. Moreover, as described in more detail at material contract (b) of Part VII (Additional information) below, the company has the right to purchase at par up to \$19 million of dollar notes held by Mr M E Zukerman and associates.

In pursuance of their policy of refinancing maturing debt as explained in more detail under "Reasons for the proposed issue" above, it is intended that the net proceeds of the proposed issue will be applied in reducing existing group indebtedness and related engagements (being cash flow hedges against dollars of the sterling component of the group's indebtedness) including, to the extent prudent, in purchasing dollar notes and/or sterling notes. The directors are confident that the full net proceeds of the proposed issue can be deployed in this way, albeit that the reduction may have to be effected over a period to ensure that, where debt is purchased rather than repaid, the terms of purchase are reasonable for the group. The debt capital will thus be reduced to reflect the increase in the issued preference share

capital.

Pending their application in refinancing maturing debt, the net proceeds of the proposed issue will be used to augment the group's working capital.

6. **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The articles permit the holding of preference shares under the CREST system. Accordingly, settlement of transactions in the new preference shares following admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system. Persons subscribing for new preference shares who wish to receive and retain share certificates will be able to do so. Persons subscribing for new preference shares may elect to receive new preference shares in uncertificated form if that person is a system-member (as defined in the Regulations) in relation to CREST.

7. **Notice to potential investors**

The distribution of this document into jurisdictions other than the UK may be restricted by law. Persons who obtain a copy of this document should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, this document should not be distributed, forwarded to or transmitted in or into the US or into any other jurisdiction where the extension or availability of the proposed issue would breach any applicable law. No action has been taken by the company that would permit an offer of the new preference shares or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than the UK.

The company is not making any representation to any potential investor regarding the legality of an investment in the new preference shares by such person under the laws applicable to such person.

Potential investors should rely only on the information contained in this document and any supplementary prospectus produced to supplement the information contained in this document. Without limitation to the foregoing, reliance should not be placed on any information in announcements released by the company prior to the date hereof, except to the extent that such information is repeated in this document.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the proposed issue and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the company or its directors. Without prejudice to any obligation of the company to publish a supplementary prospectus pursuant to section 87G(1) of the Financial Services and Markets Act 2000 and Rule 3.4 of the Prospectus Rules, neither the delivery of this document nor any subscription or sale made under this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the company or of the group taken as a whole since the date of this document or that the information contained herein is correct as of any time subsequent to the date of this document.

Each prospective investor should consult his/their own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to the

purchase of new preference shares.

8. **Withdrawal rights**

If the company were to issue a prospectus supplementary to this document, such issue may give rise to statutory withdrawal rights. Persons wishing to exercise any such rights must do so by lodging a written notice of withdrawal (and for these purposes a written notice includes a notice given by fax) which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such a person is a CREST member, the participant's ID and the member account ID of such CREST member, with the company at its registered office, First Floor, 32-36 Great Portland Street, London W1W 8QX (fax - +44 (0)20 7631 3291), so as to be received no later than two business days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is deposited with or received by the company after the expiry of such period will not constitute a valid withdrawal. Furthermore, the company will not permit the exercise of withdrawal rights after payment is made by an investor and new preference shares have been allotted unconditionally to such investor. In such event, investors are advised to seek independent legal advice.

Part IV Business information

1. History

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

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

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

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

Recognising the potential of the East Kalimantan agricultural operations and the prospective benefits of basing the future of the group on the success of those operations, the group concluded in 1998 that it should divest all of its other plantation interests together with those non-plantation interests that the group still retained from earlier diversifications by REAL and the company. The divestment programme was completed in 2002.

As the East Kalimantan agricultural operations became gradually more solidly established and cash generating, the directors concluded that the group should be willing to consider possibilities for diversification into areas of activity that complemented and could be developed within

reasonable proximity of the agricultural operations. This led to the acquisition by the group in 2008 of rights in respect of two adjoining coal mining concessions in the southern part of East Kalimantan. This acquisition was followed in December 2009 by the acquisition of rights in respect of a third coal mining concession located in the central part of East Kalimantan.

2. **Overview of current business**

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of CPO and by-products harvested from its oil palm. In addition, following the acquisition of the coal concession rights referred to under "History" above, the group is endeavouring to establish an open cast coal mining and coal trading business based on those concessions.

The group today sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a listed company and then using capital raised by the company to develop natural resource based operations in Indonesia from which the group believes that it can achieve good returns.

CPO and coal are primary commodities and as such must be sold at prices that are determined by world supply and demand. Such prices may, and do, fluctuate in ways that are difficult to predict and which the group cannot control. The group's operational strategy is therefore to concentrate on minimising unit production costs with the expectation that the lower cost producer of any primary commodity is better placed to weather any downturn in price than less efficient competitor producers of the same commodity.

In the agricultural operations, the group adopts a two pronged approach in seeking production cost efficiencies. First, the group aims to capitalise on its available resources by developing the group's land bank as rapidly as logistical, financial and regulatory constraints permit with a view to utilising the group's existing agricultural management capacity to manage a larger business. Secondly, the group strives to manage its established agricultural operations as productively as possible. Ancillary to the first component of this approach, the group seeks to add to its land bank when circumstances are conducive to its doing so. The directors intend that, as the coal operations come into production, the group will similarly seek production cost efficiencies in those operations by increasing volumes and focusing on productivity.

The group recognises that its agricultural operations, which represent over 95 per cent of the group's assets and, in 2009, contributed all of the group's profits, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it risks. The directors hope that the coal operations now being established will, if successful and further expanded, provide the group with some offset against such risks. The directors have no plans for further diversification and believe that, for the foreseeable future, the group's interests will be best served by organic development of the existing agricultural and coal operations.

3. **Agricultural operations**

Structure

All of the group's agricultural operations are located in East Kalimantan and have been established pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to support the group in acquiring, for its own account and in co-operation with local interests, substantial areas of land in East Kalimantan for planting with oil

palms.

The oldest planted areas, which represent the core of the group's operations, are owned through REA Kaltim in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, over the four year period from 2005 to 2008 the company established or acquired several additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates. These additional subsidiaries comprise PT Cipta Davia Mandiri ("CDM"), PT Kartanegara Kumalasakti ("KKS"), PT Kutai Mitra Sejahtera ("KMS"), PT Putra Bonggan Jaya ("PBJ") and PT Sasana Yudha Bhakti ("SYB"). Each of these subsidiaries is, or will on completion of necessary legal formalities be, owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors.

Land areas

Although the 1991 understanding established a basis for the provision of land for development by or in cooperation with the group, all applications to develop previously undeveloped land areas have to be agreed by the Indonesian Ministry of Forestry and to go through a titling and permit process. This process begins with the grant of a land allocation. This is followed by environmental and other assessments to delineate those areas within the allocation that are suitable for development, settlement of compensation claims from local communities and other necessary legal procedures that vary from case to case. The land titling process is completed by a cadastral survey (during which boundary markers are inserted) and the issue of a formal registered land title certificate (an "hak guna usaha" or "hgu" certificate). Permits are then required for the development of fully titled land and these are often issued in stages. In particular, the Ministry of Forestry has recently introduced further checks on plantation development licences, designed to stop plantation development improperly encroaching on land that has been zoned for retention as forest.

In the group's experience, the process, which was never straightforward, has become more complicated in recent years. This has followed the devolution of significant authority in relation to land matters from the Indonesian central government to Indonesian provincial and district authorities which has resulted in an increase in the number of official bodies involved in the titling process.

The overall area of fully titled agricultural land held by the group currently totals 60,989 hectares, comprising 30,106 hectares held by REA Kaltim, 9,497 hectares held by SYB, 11,602 hectares held by PBJ and 9,784 hectares held by CDM. Land allocations still subject to titling comprise some 6,000 hectares held by SYB, 10,000 hectares held by CDM and 17,000 hectares held by KMS. In addition, KKS continues to seek title to a 20,000 hectare land area as respects which a land allocation previously held by it has lapsed. The process of titling land allocations may be expected to result in the exclusion of areas the subject of conflicting land claims and having special environmental value. Accordingly, the group is likely to be granted full hgu land titles in respect of only a part of its current untitled land allocations. Moreover, not all of the areas in respect of which full hgu titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion has to be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This

means that the prospective maximum area that the group could plant with oil palms on the fully titled and allocated agricultural land areas currently held must be expected to be considerably less than the gross hectareage that those areas comprise.

The 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 area and the area sought by KKS are contiguous with the REA Kaltim areas so that the three areas together form a single site. All of these areas fall within the Kutai Kartanegara district of East Kalimantan. The 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 to each other in the East Kutai district of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas.

Land development

Areas planted and in the course of development as at 31 December 2009 amounted in total to 30,990 hectares. Of this total, mature plantings comprised 18,736 hectares. A further 3,333 hectares planted in 2006 came to maturity at the start of 2010.

The group is aiming to develop a further 8,000 hectares of oil palms by the end of 2011 but achievement of this planting target will be critically dependent upon land becoming available for development as needed. Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted necessary development, land clearing and Ministry of Forestry permits and has reached compensation agreements with local villagers who have claims in respect of their previous use of the land.

At current cost levels and CPO prices, extension planting in areas adjacent to the existing developed areas still offers the prospect of attractive returns. Accordingly, it remains the policy of the directors that, subject to financial and logistical constraints, the group should continue its expansion and should aim over time to plant with oil palms all suitable undeveloped land available to the group (other than areas set aside by the group for conservation). 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. Moreover, the group's capacity for extension development is likely to remain dependent upon the rate at which the group can make additional land areas available for planting.

Processing and transport facilities

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, dates from 1998 and the second mill was brought into production in 2006.

The group experienced problems in the older mill during 2009 in achieving the intended capacity of 80 tonnes per hour. Accordingly, one of the mill's two boilers is being replaced and the mill's two production lines are being upgraded to provide greater resilience. These improvement works and the recent expansion in the capacity of the newer mill to 80 tonnes per hour should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2010 and 2011. However, the group will require a third mill during 2012 and work is in hand on the

planning of this third mill.

The group's newer oil mill incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels can be further processed to extract the CPKO that the palm kernels contain. The kernel crushing plant is economic to run because the oil mill in which the plant is located is able to generate sufficient power, from the combustion of waste products from the mill's processing of FFB, to operate the kernel crushing plant and to meet the other power requirements of the mill. Moreover, processing kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. The kernel crushing plant has a capacity of 150 tonnes of kernels per day which is sufficient to process all kernel output from the group's two existing oil mills. Further kernel crushing capacity will be needed when the planned third oil mill comes into production and this new mill will therefore incorporate its own kernel crushing plant.

The group operates a fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with tank storage adjacent to the oil mills and a transshipment terminal owned by the group downstream of the port of Samarinda. The fleet comprises one larger barge, which the group time charters, and a number of smaller barges, ranging between 750 and 2,000 tonnes, which are owned by the group. The smaller barges are used for transporting CPO and CPKO from the upriver operations to the transshipment terminal for collection from that terminal by buyers. The larger barge is used for sea voyages to Malaysia and other parts of 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. Currently, a significant proportion of the group's CPO is sold for delivery to ports in Sabah, Malaysia. As a result, the group's larger barge is employed almost exclusively in sailing between Samarinda and Sabah.

A trial made in 2005 established that it is both feasible and economical to use the barge fleet to transfer CPO from the Samarinda transshipment terminal to ships anchored offshore from the port of Samarinda. This potentially 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). Moreover, the recent construction of bulking facilities in the major sea port of Balikpapan means that larger vessels may now also be accessed by barging from the upstream oil storage tanks to Balikpapan and transshipping there rather than in Samarinda. Access to larger vessels would permit the group to ship CPO and CPKO to Europe when differentials between European and South East Asian prices for CPO and CPKO make it worthwhile to do so. This is not currently the case but the situation may change when the group becomes able to deliver CPO and CPKO that have been certified by internationally recognised bodies as sustainably produced.

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August), river levels on the upper part of the Belayan become volatile and CPO and CPKO 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 in this downstream location. Road access to this site, which was washed away in 2005, was restored

during 2009 and the group is now considering the development of its own permanent loading facilities on the site for use during dry periods.

Crops and extraction rates

FFB production has increased over the past five years from 312,676 tonnes in 2005 to 490,178 tonnes in 2009. Extraction rates achieved in 2009 were 23.51 per cent for CPO, 4.72 per cent for palm kernels and 40.04 per cent for CPKO.

Markets

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 3.1 per cent to 162.9 million tonnes in the year ended 30 September 2009. The increased consumption was reflected in increased world production during the same period of 162.8 million tonnes with CPO accounting for 44.4 million tonnes of this (27.3 per cent of the total).

Vegetable and animal oils and fats have conventionally been used principally 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 economic growth. Demand is thus being driven by the increasing world population and economic growth in the key markets of India and China. Vegetable and animal oils and fats can also be used to provide bio-fuels and, in particular, bio-diesel. According to Oil World, bio-fuel use during the year ended 30 September 2009 accounted for 10.1 per cent of all vegetable and animal oil and fat consumption.

The principal competitors of CPO are the oils from the annual oilseed crops, the most significant of which are soybean, oilseed rape and sunflower. Because these oilseeds are sown annually, their production can be rapidly adjusted to meet prevailing economic circumstances with high vegetable oil prices encouraging increased planting and low prices producing a converse effect. Accordingly, in the absence of special factors, pricing within the oils and fats complex can be expected to oscillate about a mean at which adequate returns are obtained from growing the annual oilseed crops.

Since the oil yield per hectare from oil palms (typically between four and seven tonnes) is much greater than that of the principal annual oilseeds (less than 1 tonne), CPO can be produced more economically than the principal competitor oils and this provides CPO with a natural competitive advantage within the vegetable oil and animal fat complex. Within vegetable oil markets, CPO should also continue to benefit from health concerns in relation to trans-fatty acids. Such acids are formed when vegetable oils are artificially hardened by hydrogenation. Poly-unsaturated oils, such as soybean oil, rape oil and sunflower oil, require hydrogenation before they can be used for shortening or other solid fat applications but CPO does not.

Bio-fuel has become an important factor in the vegetable and animal oil and fat markets, not so much because of the oil and fats that it currently consumes, although this is not insignificant, but because the size of the energy market means that bio-fuel can provide a ready outlet for large volumes of oils and fats over a short period when surpluses in supply depress prices to levels at which bio-fuel can be produced at a cost that is competitive with prevailing petroleum oil prices. This should provide a floor for vegetable and animal oil and fat prices.

The directors believe that demand for, supply of and consequent pricing of, vegetable and animal oils and fats will ultimately be driven by fundamental market factors. However they also recognise that normal market mechanisms can 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 have been actions by governments attempting to reduce dependence on fossil fuels. These have included steps to enforce mandatory blending of bio-fuel as a fixed minimum percentage of all fuels and subsidies to support the cultivation of crops capable of being used to produce bio-fuel. Subsequent concerns as to the side effect of such actions in reducing food availability and in encouraging despoliation of forest lands may limit further measures to encourage the production of bio-fuel but the directors consider it likely that measures already in place will remain in force for some time to come.

Over the ten years ended 31 December 2009, the monthly average price of CPO moved between a high of \$1,249 per tonne and a low of \$234 per tonne, CIF Rotterdam. The monthly average price over the ten years as a whole was \$526 per tonne, CIF Rotterdam.

Sales

In 2009, approximately 48 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 52 per cent was exported. FOB prices realised for CPO in the local market during 2009 were for the most part broadly in line with those available in the export market but, with production volumes increasing, the group wishes to ensure that it can access both domestic and international CPO markets. Sales were made to a small number of buyers with export sales concentrated within the South East Asian region with the vast majority of exports going to refineries in Sabah, Malaysia owned by one customer. During 2009, CPKO was sold entirely in the local Indonesian market.

Sales are made on contract terms that are standard for each of the markets into which the group sells. The group therefore has no current need to develop its own policies for terms of dealing with customers. The group will give consideration to separate marketing of segregated sustainable CPO once it has obtained accreditation from the Roundtable on Sustainable Palm Oil as referred to under "Accreditation" below.

Indonesia currently imposes a sliding scale of duty on exports of CPO. The rate of duty payable rises from nil per cent on sales at prices of up to the equivalent of \$700 per tonne, CIF Rotterdam, to 25 per cent on sales at prices above the equivalent of \$1,250 per tonne. Exports of CPKO are similarly subject to duty on a sliding scale.

As a general rule, all CPO and CPKO produced by the group is sold on the basis of prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may consider making forward sales at fixed prices. The fact that export duty is levied on prices prevailing at date of delivery, not on prices realised, acts as a disincentive to making forward fixed price sales since a rise in CPO prices prior to delivery of such sales will mean that the group will not only forego the benefit of a higher price but will also pay export duty on, and at a rate calculated by reference to, a higher price than it has obtained. When making forward fixed price sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO or CPKO production for a forthcoming period of twelve months. No deliveries were made against forward fixed price sales of CPO or CPKO during 2009 and

the group currently has no sales outstanding on this basis.

The average US dollar prices per tonne realised by the group in respect of 2009 sales of CPO and CPKO, adjusted to FOB Samarinda, were, respectively, \$591 (2008: \$664) and \$579 (2008: \$820).

Costs

The group's revenue costs in respect of its agricultural operations 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. The group's strategy in seeking to minimise unit costs of production is to maximise yields per hectare, to seek efficiencies in the overall costs and to spread central overheads over as large a cultivated hectareage as possible.

The level of rainfall in the areas of the agricultural operations provides the group with some natural advantage in relation to crop yields. The group endeavours to capitalise on this advantage by constantly striving to improve its agricultural practices. In particular, careful attention is given to ensuring that new oil palm areas are planted with high quality seed from proven seed gardens and that all oil palm areas receive the upkeep and fertiliser that they need. The group has been an early user of macuna bracteata as a cover crop in oil palm areas with encouraging results in keeping down noxious weeds and generating vegetative matter that provides a natural mulch and promotes oil palm growth. In addition, to the extent practicable, the group substitutes composted residues of the CPO production process and palm kernel cake, a by-product of the CPKO extraction process, for inorganic fertiliser.

Recent cost saving initiatives have included increased mechanical handling of FFB which is improving the efficiency of transfer of FFB from field to factory and the establishment of an in-house road maintenance capacity in substitution for external contractors.

The group is developing a new management information and accounting system. This is intended to become fully operational during 2011. The new system should facilitate analysis by reference to much smaller units than has hitherto been possible and should thus permit management to identify and remedy underperformance on a more focused basis.

Employees

The workforce in the group's agricultural operations currently numbers slightly in excess of 7,000.

Steps were taken during 2009 to enhance the human resources department. New management was appointed and separate teams, each under the supervision of a dedicated senior staff member, were deployed to pursue a number of strategic initiatives to improve employee facilities and amenities; to encourage a team mentality; to enhance operational management practices; to inculcate principles of ethical conduct; and to make the human resource department itself more effective. A new performance evaluation system and remuneration structure is being introduced in stages and is expected to be implemented fully during 2011.

Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools

and crèches. A foundation funded by the group operates a network of primary schools across the group's estates and the group provides financial assistance to state secondary schools serving the children of the group's employees.

The group runs its own health service with a medical clinic in each estate village and a basic central hospital. The clinics and hospital are open not only to the group's employees and their dependants but also to members of the local communities. The group actively supports measures to control endemic diseases and to further the education of its workforce in hygiene and similar health matters.

The group has health and safety policies that are clearly communicated to all employees and are managed through regular meetings on each operating unit attended by management and employee representatives. The minutes from all such meetings are reviewed by senior management ultimately accountable to the group managing director and appropriate action is taken to remedy any deficiencies identified.

Having available staff in the numbers and with the skills and commitment that are required is vital to the group in its efforts to establish best practice in all aspects of its agricultural activities. In most years, graduates from Indonesian universities are recruited to join a twelve month cadet training programme organised by the group's training school and providing a grounding in oil palm estate management. Those successfully completing the programme are offered management positions.

Wherever possible, the group fills available staff positions by internal promotion. The continuing expansion of the agricultural operations gives the group the ability to offer graduates the prospect of an attractive career path. Until recently, the graduate intake was limited to graduates holding agricultural qualifications but this was broadened in 2009 to include engineering graduates. It is planned that future graduate recruitment should be further broadened to include a wider spectrum of graduates with the aim of providing the group with a pool of staff qualified to manage all aspects of the group's agricultural activities.

Continued training is provided for staff at all levels. Regular programmes are constructed by, and operated out of, the group's own training school. These are supplemented by external management development courses and attendance at industry conferences. A wide variety of topics is covered including health and safety, sustainability and communication skills.

Community development

The group believes that maintenance of good relations with, and encouraging the development of, local communities in its areas of operation is an essential component of its agricultural operations. To this end, the group provides assistance to adjacent villages by helping with road building and other infrastructural requirements and encourages joint social and cultural activities between its employees and local villagers.

The group has established a separate department to liaise with the local communities and to formulate and manage the group's community development initiatives. Staffed with a manager and four assistants, the department is the primary interface between the group and the local communities. In addition, a liaison committee established in 2009 and made up of representatives of the group and the local communities now meets regularly and provides a forum in which concerns of any of the

parties represented can be aired formally.

The community development department plays an important role in the titling of new agricultural land areas allocated to the group. It oversees the production by external consultants of the community needs assessment that the group now commissions in all new areas prior to any development of such areas. It explains to the local communities the implications of oil palm development and it seeks to identify and meet local concerns so that the free, prior and informed consent of local people is obtained for new developments.

The department is also responsible for assisting the local communities in establishing self help programmes that will assist with their economic development. Such programmes fall into two categories: first, smallholder oil palm plantings (which are made viable by the nearby availability of group oil mills able to process the FFB crops that the plantings will produce); and, secondly, community projects that can take advantage of the readily accessible local market for produce that the proximate group workforce provides.

More detailed information regarding smallholder oil palm plantings is given under "Smallholder programmes" below. As respects the other community development projects, the group provides support by way of agreements to purchase produce and financial and technical assistance. Such projects have included chicken and duck rearing, fish farming, fruit, vegetable and rice cultivation and bee keeping. To date, projects of this type have been organised by small groups of individual villagers. Going forward, the group hopes to encourage projects organised by village cooperatives so as to permit projects on a slightly larger scale and to widen the opportunity for members of each village to participate in such projects if they so wish.

Smallholder programmes

The group supports the local communities in areas adjacent to the group's agricultural operations in establishing their own smallholdings of oil palm.

Until 2009, this support was provided to individual smallholders pursuant to a scheme known as "Program Pengembang Masyarakat Desa" or "PPMD". Under this scheme, each individual smallholder cultivates oil palm on his own two hectare plot. The group provides technical advice and supplies each smallholder with fertilisers and chemicals on deferred terms on the basis that when the smallholder's oil palm plantings reach maturity, all FFB produced will be sold to the group for processing and the group will, on an agreed basis, recover from the amounts payable for the FFB, the deferred amounts owed to the group. At 31 December 2009, some 1,560 hectares of smallholder plantings had been established following this model across 14 local villages.

Although interest from the local village communities in the cultivation of oil palm has been increasing year by year, during recent years it has become progressively clearer that the logistical constraints of dealing with a large number of individuals, each of whom operates on a small area, will inevitably limit the rate at which the group can expand the smallholdings that it supports under the PPMD scheme. Accordingly, in order to accelerate the rate of smallholder development by local village communities, the group decided that, while it would continue to support established PPMD smallholdings, it would concentrate its future efforts on assisting local village cooperatives to develop oil palm on larger areas pursuant to what are known as "plasma schemes".

Under the plasma scheme model, the land areas for development are provided by village cooperatives but the development is managed by the group for a fee. This has the advantage that development and production standards similar to those of the group can be established in the plasma areas. The costs of development are borne by the cooperatives but with funding from external sources provided on terms that FFB produced by the cooperatives will be sold to the group and that the group will ensure that, out of the proceeds of such sale, the cooperatives meet their debt service obligations in respect of the external funding.

2009 saw the establishment by the group of its first plasma scheme on an initial gross area of 1,500 hectares provided by a cooperative of certain local villages. Cooperative members form the core labour force for the scheme but are supplemented when necessary by labour from the group's estates for which the group renders an appropriate charge. Financing for the scheme has been agreed with a local development bank in the form of a fifteen year loan secured on the land and assets of the scheme and guaranteed by a member of the group. It is expected that the loan will finance most of the initial development costs of the scheme but will be supplemented when necessary by funds advanced by the group.

The group views its support for smallholder oil palm plantings in the local communities adjacent to its operations as part of its social obligations to those communities, the discharge of those obligations should be mutually beneficial to the communities and the group. The communities will benefit from the economic development generated as a result of the plantings. In addition, the group will benefit from the additional throughput in its oil mills that will result from the processing of FFB from the plantings.

Conservation

From the outset, the group has planned the development of its agricultural operations on the basis of environmental impact assessments and advice provided by independent experts. It continues to do so. Within the areas already developed, approximately 6,000 hectares have been retained as conservation reserves with the aim of conserving flora and fauna and enhancing the biodiversity of the landscape. Areas identified as requiring conservation are set aside as part of the planning process for each new development area and are added to the conservation reserves.

As with community development, the group has established a separate department ("REA Kon") to implement the group's conservation objectives. Led by an experienced local manager and advised by an international conservation expert, the department has established a long term development plan for the period to 2015 with the following objectives:

- within the locality of the group's agricultural operations, compiling a detailed record of the physical attributes of the landscape, of its bio-diversity resources and of the status and value of those resources in a local, national and international context;
- minimising or eliminating adverse human impacts from the group's plantation operations on soil, water and biological communities;
- achieving biodiversity conservation through education and cooperation with local communities to promote both protection and sustainable use; and
- seeking conservation outcomes that provide long term benefits to

species, local communities and the group.

REA Kon augments its effectiveness through partnerships with local bodies and international non governmental organisations. Since commencing operations in 2008, the department has organised clear physical demarcation of all existing conservation reserves and has established a permanent database on flora and fauna that are found within the reserves and neighbouring watercourses. Up to the end of 2009, a total of 38 species of mammals, 143 species of birds and 71 species of cold-blooded vertebrates (such as frogs, snakes and crocodiles) had been logged on land. In addition, collaboration in studies of aquatic fauna conducted with the Indonesian Institute for Sciences and Dr Maurice Kottelat, a leading ichthyologist, had recorded in total of over 100 species of fish and described several previously unknown species.

Movement sensitive cameras and walking surveys within the conservation reserves and adjacent estate areas have detected a number of orang-utans (estimated at between 11 and 15). At least two baby orang-utans are known to have been born on the conservation reserves during 2009. REA Kon is monitoring the health of this promising orang-utan population and will consider enrichment planting in the conservation reserves if it appears that the naturally available food resources need to be enhanced.

Quarterly monitoring of water quality in all rivers in the conservation reserves on the north of the Belayan was initiated during 2009 and this is being extended to the tributaries in the conservation reserves on the south bank during 2010. Mapping of pest outbreaks in selected group estates has also started and REA Kon intends to study, over the balance of this year and during the course of 2011, the contribution that forest predators can make to pest control within oil palm plantings.

During 2009, REA Kon initiated a programme of conservation education camps for children in the group's primary schools and this programme is now being expanded to include children from local village schools. Conservation for added value schemes have been started whereby local villages are provided with seedlings of rattan and fruit trees to be planted in, and at the periphery of, the group's conservation reserves. These schemes are intended to enhance sustainable use and deter destruction of the areas by local slash and burn farming.

The directors believe that there is scope to extend the REA Kon activities beyond the immediate areas of the group's agricultural operations into the wider Belayan river basin and that to do so would increase the conservation gains that can be delivered. To this end the group has established a charitable foundation, the Yayasan Ulin ("YU") or Ironwood Foundation, which the group supports but which is also in a position to accept donations from, and work with, third parties. YU is focusing on promoting conservation of areas external to the group's plantations. YU is assisted by a board of respected international and local scientific advisers and is managed on the ground by senior REA Kon staff. In addition to the group, donors to date have included a number of zoological and conservation organisations as well as private individuals.

Sustainable practices

The group recognises its social obligations as respects pollution and energy efficiency. The group operates a zero burning policy in relation to land development and, in dry periods, maintains active fire patrols in an effort to limit the risks of accidental fires. Corridors are used to separate all plantings from water courses and the latter are regularly monitored to ensure that they are not contaminated by leaching of fertilisers and

chemicals. 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 combined with empty fruit bunches to make a compost which is applied in the oil palm areas in substitution for inorganic fertiliser. The residue from palm kernel milling is recycled directly back to the oil palm areas and also substitutes for inorganic fertiliser.

Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. The steam is then used to drive steam turbines for generating electricity. This electricity is sufficient to power not only the group's oil mills but also to provide power to several estate villages. However, the power is not sufficient for all villages and power can anyway only be provided by this means when the mills are running. The agricultural operations are therefore heavily dependent on diesel generated power. The group is therefore considering a project to achieve greater efficiency in its use of diesel oil by capturing methane released during the digestion of mill effluent and then utilising such methane to drive gas powered generators. This would not only materially reduce the group's use of diesel for power generation but would also substantially eliminate current methane emissions from effluent ponds.

Preliminary estimates suggest that such a project would provide additional power capacity of between three and four megawatts per oil mill but would involve investment of some \$4 million per mill in establishing the methane capture facilities, gas powered generating capacity and additional electrical reticulation that would be required. The group, with the assistance of the Danish Ministry of Climate and Energy, has pre-registered the contemplated project under the United Nations Framework Convention on Climate Change and hopes to be accepted for full registration before 31 December 2010. This would permit the group, upon completion of the project, to obtain carbon credits under the Clean Development Mechanism which would make it easier to justify the capital commitment that is involved.

Accreditation

The group has obtained ISO 14001 certification in respect of both of its mills, the kernel crushing plant and all of the REA Kaltim estate units. It is hoped that certification of the balance of the group's established estate units will be completed by 31 December 2011.

The group is a member of the Roundtable on Sustainable Palm Oil ("RSPO") which has produced a set of eight principles and 39 criteria for the sustainable production of palm oil. Whilst the directors believe that the group's operational practices already meet the requirements of RSPO, accreditation will require that such operational practices are embedded in formal systems and are subject to controls that are auditable. Over the past two years, in tandem with the ISO 14001 certification process, the group has, with assistance from external consultants, taken steps to ensure that it has in place the required systems and controls. This process is now substantially complete and the group has therefore applied for RSPO accreditation audits (conducted by RSPO approved independent certifiers) to be initiated before 31 December 2010 with a view to obtaining final certification during the course of 2011. Compliance with RSPO procedures and standards is exacting but the group remains

committed to long term sustainable development and eventual production of certified sustainable palm oil.

Once obtained both ISO 14001 and RSPO accreditations are subject to periodic independent recertification.

4. **Coal operations**

Concessions and structure

The group has interests in three coal mining concessions. These comprise the Liburdinding and Muser concessions located near Tanah Grogot in the southern part of East Kalimantan acquired in the second half of 2008 and the Kota Bangun concession in the central part of East Kalimantan which was added in December 2009. The Liburdinding and Muser concessions cover areas of, respectively, 1,000 hectares and 2,100 hectares and the Kota Bangun concession an area of 4,400 hectares. Coal extraction, in each case, is or will be by open cast mining.

Until recently, Indonesian law restricted foreign direct ownership of Indonesian companies holding coal mining concessions but a new Indonesian mining law enacted in December 2008 permits such ownership (subject to a provision that foreign controlled mining companies must be owned locally to the extent of not less than 20 per cent within a prescribed period after such companies commence commercial mining operations).

Because the Liburdinding, Muser and Kota Bangun concessions were acquired prior to publication of regulations implementing the new mining law, the group entered into temporary arrangements with a local investor and members of his family (together the group's "local partners") for the acquisition of the concessions in a manner that did not require the group to take immediate control of the Indonesian companies owning the concessions. Pursuant to these arrangements, the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and which in turn own the company holding the Kota Bangun concession. A fourth company, KCCMSI, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC (a subsidiary of the company incorporated in England and Wales that acts as a co-ordinating company for the group's coal operations) and five per cent by the local partners, has been established by KCC to spearhead the group's coal operations.

Pursuant to the above arrangements, KCC has the right to acquire the three coal mining concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group (through KCC) 95 per cent ownership with the balance of five per cent remaining owned by the local partners. The group has recently been advised that Indonesian law does now allow this, subject to necessary Indonesian government approvals, and that applications for such approvals can be submitted to the relevant authorities. Accordingly, the group intends to prepare the necessary applications in the near future. In the meanwhile, the concession holding companies are being financed by loan funding from the group and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC.

The rights held by the concession holding companies in respect of the Liburdinding and Kota Bangun concessions are in the form of exploitation licences. These licences are valid for terms expiring, respectively, in 2013 and 2016, but are renewable on expiry. Currently, Muser is held on an exploration licence but this will be converted into an exploitation licence which will be for an initial term of five years and will also be renewable on

expiry. Royalties based on coal sales are payable in respect of Liburdinding and Muser at the rates of 13 and five per cent, respectively, and will be payable in respect of Kota Bangun at the rate of 13 per cent. All three concession holding companies will be required to reconstitute the areas mined when coal extraction has been completed.

Geological surveys conducted to date suggest that the concessions contain commercial deposits of coal accessible by open cast mining and having typical gross calorific values of between 5,800 and 6,200 kilocalories per kilogramme ("kcal/kg") air dried basis ("ADB") in the case of Liburdinding, between 6,000 and 7,000 kcal/kg ADB in the case of Muser and between 8,500 and 9,500 kcal/kg ADB in the case of Kota Bangun. Inferred coal reserves are estimated at 14.7 million tonnes for Liburdinding, 17.6 million tonnes for Muser and not less than two million tonnes for Kota Bangun. Geological surveys to delineate more precisely the available reserves are continuing. Moreover, economically mineable reserves are likely to be less than the inferred reserves.

The group is investigating the possibility of one of the coal mining concession holding companies obtaining a licence to quarry stone from an area near to the group's agricultural estates with a view to selling crushed stone to the group's agricultural operations and to third parties operating in the vicinity of those operations.

Mine development

During 2009, the group's development focus was on bringing the Liburdinding concession into production. A mining plan had been completed, and the necessary infrastructural facilities (principally a port facility and a 38 kilometre road to the port) were substantially complete, by June 2009. However, the group withdrew from its original plan to establish, as rapidly as possible, a production level of 30,000 tonnes per month when it became clear that the sulphur content of the Liburdinding coal was such that, in what had become a buyer's market for export coal, it would be necessary, if Liburdinding coal was to be exported, either to blend the coal mined with purchased coal having a lower sulphur content or to accept a significant price penalty.

The group concluded that it was important to be able to market Liburdinding coal within Indonesia. To this end, the group has established a coal depot at Semarang in Central Java, facilitating deliveries to industrial users of coal in that area (a large coal consuming district) and permitting blending with other coal to meet specific buyer requirements. Additionally, with better coal prices, export demand has improved and some export shipments of Liburdinding coal are in prospect. For the year ending 31 December 2010, the group budgeted for output from Liburdinding of 150,000 tonnes with a maximum stripping ratio (being the amount of earth and rock (or "overburden") required to be removed to gain access to the coal, expressed as the number of cubic metres of overburden in situ to be removed to extract one tonne of coal) of seven to one.

The Kota Bangun concession is projected to involve a stripping ratio of in excess of twenty to one and requires blasting of the overburden. However, the Kota Bangun concession is well located, being approximately five kilometres from the Mahakam river and the high calorific value coal that the concession contains is very suitable for export.

Continuing geological assessments of the Muser concession indicate that the Muser coal deposits are complex and that the overburden includes rock that cannot easily be removed without blasting which may pose

problems given that there are villages located in quite close proximity to the concession. Moreover, the Muser coal has a higher sulphur content than the Liburdinding coal. The group therefore intends to continue geological exploration at Muser but to defer bringing the concession into production until commercial levels of output are being obtained from Liburdinding and Kota Bangun.

Markets, revenues and costs

Within the Asia Pacific region, China and India are large coal producers but their internal production is inadequate to meet their energy requirements. The shortfall is made up by imports primarily from Indonesia and Australia. A number of other Asian Pacific countries also have demand for imported coal. Because coal is bulky, economic availability is constrained by logistics. The directors consider that this offers excellent opportunities for Indonesian coal producers because Indonesia is geographically well located for the main Asia Pacific markets and much of its coal (particularly in East Kalimantan) is located adjacent to rivers which provide an economic method of transportation. Furthermore, in addition to the potential of an expanding export market driven by increasing demand for coal generated power, Indonesia can expect significant growth in internal demand as the Indonesian state electricity company ("PLN") implements plans to expand generating capacity from 25,000 megawatts to 44,000 megawatts by 2014.

The group continues to endeavour to augment the basic mining revenues from the Liburdinding and Kota Bangun concessions in two respects. First, it is making available the port facility established for the Liburdinding concession for use by third parties for an appropriate charge. Secondly, the group is establishing a limited coal trading activity in which the group sources coal from third parties, and then on-sells the coal so sourced. As both of these additions to the coal operations are new, there can be no certainty as to how fast and in what volumes they can be added. However, the directors consider it reasonable to aim to be achieving, in due course, monthly levels of 20,000 tonnes of third party throughput through the Liburdinding port and of 100,000 tonnes of traded coal sales. The group plans initially to source third party coal by outright purchase but hopes, as the coal trading activity becomes established, to be able to enter into arrangements to procure a proportion of the coal traded by mining against payment of an agreed royalty.

The group is budgeting the overheads of its coal operations for the year ending 31 December 2010 (excluding head office costs in the UK, interest, depreciation and amortisation) at \$100,000 per month. Once commercial levels of production are being achieved, production costs per tonne are projected in the ranges \$64 to \$78 per tonne for Kota Bangun coal and \$23 to \$29 per tonne for Liburdinding coal. Net contribution from third party coal throughput in the Liburdinding port is projected at \$2.50 per tonne and the contribution margins achievable on traded coal sales at between \$4 and \$10 per tonne (depending on the mix of coal sourced by outright purchase and coal sourced by mining third party concessions). The overall results of the coal operations will be critically dependent upon sales volumes and prevailing coal prices.

Sustainable practices

In developing its mining activities, the group remains committed to observing international standards of best environmental practice. Steps are being taken to establish health and safety procedures to protect and safeguard the welfare of all persons involved with the mining operations, to ensure the proper management of waste water and to provide for the

reinstatement, in so far as reasonably practicable, of land areas affected by mining to their original condition upon completion of mining operations.

5. Current trading

Agricultural operations

FFB harvested during the six months ended 30 June 2010 totalled 246,684 tonnes. Although this was comfortably ahead of the crop harvested in the first six months of 2009 of 230,774 tonnes, it was 9 per cent short of the budget for the period of 270,000 tonnes. FFB harvested during the July to September quarter of 2010 totalled 121,465 tonnes, falling some 10,000 tonnes short of budget.

The group suffered an extended dry period during 2009 and, whilst theoretical calculations showed that average rainfall was adequate to avoid palms suffering moisture stress (which is known to have a subsequent temporary effect on cropping levels), rainfall is not uniform across the group's estates and run-off in hilly areas results in lower moisture absorption than in flat areas. It may therefore be that 2009 rainfall levels have negatively affected recent cropping from parts of the group's estates. Having said this, local management reports excellent bunch formation and believes that FFB crops for the remaining months of 2010 will show a surplus on the budget for those months. However, with only some three months of cropping left in 2010, the group now looks likely to fall slightly short of the budgeted FFB crop for 2010 of 561,000 tonnes.

Rainfall for the first half of 2010 was excellent both as to quantum and, for the most part, as to distribution. The total received during the period was 2,236 millimetres (2009: 1,776 millimetres). Since 30 June 2010, good levels of rainfall have continued, suggesting that there may be little or no drier period during 2010. This augurs well for 2011 FFB crops.

External purchases of FFB for the nine months ended 30 September 2010 totalled 13,333 tonnes (2009: 8,249 tonnes). Processing of the externally purchased FFB and the group's own production, together totalling 381,481 tonnes (2009: 349,963 tonnes), produced 90,864 tonnes of CPO (2009: 81,884 tonnes) and 17,357 tonnes of palm kernels (2009: 16,663 tonnes), reflecting extraction rates of 23.82 per cent for CPO (2009: 23.40 per cent) and 4.55 per cent for palm kernels (2009: 4.76 per cent). Production of CPKO amounted to 6,860 tonnes (2009: 6,845 tonnes) representing an extraction rate of 40.06 per cent (2009: 40.68 per cent). The improved CPO extraction rate, close to the group's target rate of 24 per cent, reflects improvements to harvesting disciplines.

The CPO price at the beginning of 2010 was a little above \$800 per tonne, CIF Rotterdam, and broadly remained at that level throughout the first six months of 2010. The average price for that period was \$809 as compared with an average for the corresponding period in 2009 of \$658. The progressive rates of duty applied to exports of CPO from Indonesia meant that duty of between \$20 and \$40 per tonne was payable on CPO exports made during the six months ended 30 June 2010 while little or no duty was levied on CPO exports during the six months ended June 2009.

CPO prices have firmed since 30 June 2010 and the price, CIF Rotterdam, currently stands at over \$900 per tonne. The upward movement appears to reflect an expectation that adverse weather conditions will result in lower than previously estimated 2010 oilseed crops in Europe and Canada. It is also the case that previous projections of Indonesian CPO production for 2010 are being scaled back as a number of major producers report below budget crops for the year so far. The rate of Indonesian export

duty is rising with the increase in CPO prices.

The pattern of CPO sales of recent years continued into 2010 with just over 50 per cent of all CPO produced during the six months ended 30 June 2010 being sold in Sabah, Malaysia. The balance was sold to the local Indonesian market. The group continues to deliver shipments to Sabah, Malaysia in its own time chartered barge and increasing output has recently permitted a switch from a 3,000 tonne to a 4,000 tonne barge. With local pricing of CPKO now frequently at a discount to prices available in export markets, the group has started shipping its CPKO to export buyers. This requires the group to hold greater CPKO stocks than in the past as the minimum economic quantity for export is higher than that for local sale. The average selling price for the group's CPO for the six months ended 30 June 2010 on an FOB basis at the port of Samarinda and after payment of export duty was \$711 per tonne (2009: \$530 per tonne). The average selling price for the group's CPKO on the same basis was \$867 per tonne (2009: \$496 per tonne).

Expansion of the group's newer oil mill to a capacity of 80 tonnes per hour is now complete with the additional capacity available to process the peak crops expected in the closing months of 2010. Upgrading of the group's older mill is also proceeding as planned although lead times for delivery of new boilers mean that the replacement boiler for this mill will not be installed until 2011.

Agricultural development

The group retains its oil palm planting target for the two year period ending 31 December 2011 of 8,000 hectares in total. Achievement of this planting target remains dependent upon land becoming available for development as needed and, in particular, upon the group obtaining confirmations in relation to recently introduced Indonesian Ministry of Forestry regulations that are additional to the confirmations that were previously required. Although considerable progress has been made in obtaining the necessary confirmations, the process has not yet been completed. This is currently delaying the development programme.

Coal operations

Whilst it is taking longer than the directors originally hoped to bring the group's new open cast coal mining operations into full production, good progress has been made in recent months.

Mining permits for the Kota Bangun concession have been finalised and land compensation has been agreed. A contractor has been appointed, hauling road construction is nearing completion and overburden removal should start in the near future. Coal production is thus expected before the end of 2010 (with a target of achieving monthly production of 16,000 tonnes within 2011). Enquiries from potential customers support the view that the coal will be easy to market and, provided that coal markets remain around current levels, can be sold at good margins. Further drilling has been commissioned to provide a better idea of the extent to which the inferred reserves can be economically mined.

Regular sales of coal from the Liburdinding concession are now being made through the group's Semarang depot with a current sales level of 3,000 to 4,000 tonnes per month but it is now clear that 2010 Liburdinding production will be much lower than the 150,000 tonnes budgeted. To increase output, the group must establish an export market for the Liburdinding coal. This has to date proved difficult because of the relatively high sulphur content of the coal, but the directors hope to

resolve this problem in the coming months by blending the coal with low sulphur coal acquired from third parties and then marketing the blended coal. A potential source of coal suitable for blending with the Liburdinding coal and a potential customer for the blended coal have now been identified and it is hoped that a trial shipment can be made before 31 December 2010. If successful, the directors consider that, going forward, production of 15,000 tonnes per month of Liburdinding coal is a realistic target.

The group has now started to make traded coal sales and hopes to establish regular sales to a limited range of customers with a target of 100,000 tonnes per month during 2011. Once this has been achieved, the group will consider entering into long term cooperation agreements to source coal to meet these sales with a view to itself mining that coal against payment of an agreed royalty.

Environmental and social responsibility

The group has completed planting out of the first smallholder plasma scheme supported by the group resulting in a total planted area of slightly in excess of 1,200 hectares. Development has started on three further cooperative schemes with nearly 1,100 hectares cleared to date and some 300 hectares already planted.

The group is maintaining its community development and conservation programmes. Under the former, in addition to continuing the self help programmes financially supported by the group, the group is providing funding to assist various infrastructural projects in local villages. On the conservation side, a new field station has recently been opened. This will facilitate planned research projects in the group's conservation areas in cooperation with academic institutions.

Work is continuing on the proposed project for capturing methane from mill effluent and utilising the captured methane to generate electric power. Design consultants, working in conjunction with the group's own engineers, have been commissioned to prepare detailed working drawings and a full specification for the required plant. Once available, the group hopes to be able to complete registration of the project under the United Nations Framework Convention on Climate Change and establish the extent of carbon credits available in respect of the project under the Clean Development Mechanism. With this knowledge and a detailed costing of the project that the availability of the full specification will permit, the group will be in a position to take a decision as to whether to proceed with the project. If it does proceed, it is expected that eventually each oil mill would have its own methane capture plant but that the first such plant would be constructed at the group's newer oil mill.

Audits in connection with the group's application for Roundtable on Sustainable Palm Oil accreditation are scheduled to start before the end of 2010.

In the coal operations, the group is continuing to put in place procedures to establish and maintain appropriate health and safety and environmental standards.

Outlook

With CPO continuing to trade at good levels, the directors remain positive about the outlook for the group.

Part V Financial information

1. Historical financial information

Historical financial information concerning the group, covering the three years ended 31 December 2009 and incorporating the statutory accounts for those years, is set out in the annual reports of the company for the years 2007, 2008 and 2009. All of such statutory accounts were prepared in accordance with IFRS and were audited.

This document incorporates by reference those pages of the annual reports of the company for 2007, 2008 and 2009 that contain the auditor's reports, financial statements and accounting policies and notes to the financial statements for the three years ended 31 December 2009. Those annual reports may be accessed through the company's website at www.rea.co.uk and as described under the section entitled, "Information incorporated by reference" below.

The statutory accounts in respect of the three years ended 31 December 2009 were audited by Deloitte LLP, chartered accountants and statutory auditors, of 2 New Street Square, London EC4A 3BZ. The audit reports in respect of each of such three years were unqualified within the meaning of sections 495 and 539 of the Act. The statutory accounts for all three years have been delivered to the registrar of companies in England and Wales.

2. Half yearly financial information

Half yearly financial information concerning the group, covering the six months ended 30 June 2010, together with comparative financial information for the six months ended 30 June 2009 is provided in the half yearly report of the company for the six months ended 30 June 2010. Such half yearly financial information was prepared in accordance with IFRS and was unaudited.

This document incorporates by reference those pages of the half yearly report of the company for the six months ended 30 June 2010 that contain the consolidated financial statements, accounting policies and notes to the consolidated financial statements for the six months ended 30 June 2010. That half yearly report may be accessed through the company's website at www.rea.co.uk and as described under the section entitled, "Information incorporated by reference" below.

3. Summary historic financial information

The following table provides summary financial information concerning the group for the three years ended 31 December 2009 and has been extracted without material adjustment from the statutory accounts included in the annual reports of the company for the three years ended 31 December 2009 which are incorporated by reference into this document. Such statutory accounts were prepared in accordance with IFRS and were audited. The summary financial information itself has not been audited.

	As at 31 December 2007 \$'000	As at 31 December 2008 \$'000	As at 31 December 2009 \$'000
<u>Summary of net assets</u>			
Non-current assets	236,713	278,227	322,212
Current assets	50,557	51,983	49,766
Current liabilities	(13,565)	(24,200)	(24,161)
Non-current liabilities	<u>(125,072)</u>	<u>(143,399)</u>	<u>(153,149)</u>
	<u>148,633</u>	<u>162,611</u>	<u>194,668</u>

	Year to 31 December 2007 \$'000	Year to 31 December 2008 \$'000	Year to 31 December 2009 \$'000
<u>Summary of results (before taxation and minority interests)</u>			
Revenue	<u>57,600</u>	<u>79,630</u>	<u>78,885</u>
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	43,346	45,700	41,290
Depreciation and amortisation	(1,990)	(2,477)	(3,337)
Change in fair value of biological assets	<u>8,030</u>	<u>(2,660)</u>	<u>9,765</u>
Operating profit	49,386	40,563	47,718
Investment revenues and finance costs	<u>(2,376)</u>	<u>(4,254)</u>	<u>(6,001)</u>
Profit before taxation and minority interest	<u>47,010</u>	<u>36,309</u>	<u>41,717</u>

4. Summary half yearly financial information

The following table provides summary financial information concerning the group for the six months ended 30 June 2010, with comparative figures for the six months ended 30 June 2009 and the year ended 31 December 2009, and has been compiled from figures extracted without material adjustment from the half yearly report of the company for the six months ended 30 June 2010 and from the statutory accounts in the annual report of the company for the year ended 31 December 2009, which were prepared in accordance with IFRS. Neither such half yearly report nor this summary financial information have been audited.

	As at 31 December 2009 \$'000	As at 30 June 2009 \$'000	As at 30 June 2010 \$'000
<u>Summary of net assets</u>			
Non-current assets	322,212	290,931	338,491
Current assets	49,766	43,686	54,578
Current liabilities	(24,161)	(12,634)	(21,716)
Non-current liabilities	<u>(153,149)</u>	<u>(147,964)</u>	<u>(168,429)</u>
	<u>194,668</u>	<u>174,019</u>	<u>202,924</u>

	Year to 31 December 2009 \$'000	6 months to 30 June 2009 \$'000	6 months to 30 June 2010 \$'000
<u>Summary of results (before taxation and minority interests)</u>			
Revenue	<u>78,885</u>	<u>32,441</u>	<u>50,290</u>
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	41,290	15,908	24,509
Depreciation and amortisation	(3,337)	(1,446)	(1,851)
Change in fair value of biological assets	<u>9,765</u>	<u>1,523</u>	<u>640</u>
Operating profit	47,718	15,985	23,298
Investment revenues and finance costs	<u>(6,001)</u>	<u>(2,666)</u>	<u>(3,242)</u>
Profit before taxation and minority interests	<u>41,717</u>	<u>13,319</u>	<u>20,056</u>

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

6. **Operating and financial review**

Production and revenue

The following table shows the group's agricultural crops and production, together with an analysis of the group's sales of agricultural produce, for each of the three years ended 31 December 2009 and for the six months ended 30 June 2009 and 30 June 2010. The information included therein has been extracted without material adjustment from the annual and half yearly reports of the company for those years and six month periods. No analysis of sales by geographical destination was provided in the half yearly reports and the financial statements in those reports were unaudited.

Production and sales of coal during the three years ended 31 December 2009 and the six months ended 30 June 2010 were insignificant.

	<u>Year to 31 December</u>			<u>6 months to 30 June</u>	
	2007	2008	2009	2009	2010
	Tonnes	Tonnes	Tonnes	Tonnes	Tonnes
FFB crop					
Group	393,217	450,906	490,178	231,000	247,000
External	<u>2,767</u>	<u>6,460</u>	<u>13,248</u>	<u>4,800</u>	<u>8,800</u>
	<u>395,984</u>	<u>457,366</u>	<u>503,426</u>	<u>235,800</u>	<u>255,800</u>
CPO	93,229	105,597	118,357	54,500	61,800
Palm kernel	<u>15,660</u>	<u>20,846</u>	<u>23,740</u>	<u>11,300</u>	<u>11,600</u>
	<u>108,889</u>	<u>126,443</u>	<u>142,097</u>	<u>65,800</u>	<u>73,400</u>
	\$'m	\$'m	\$'m	\$'m	\$'m
Sales by destination					
Indonesia	28.1	45.8	40.7		
Rest of Asia	<u>29.5</u>	<u>33.3</u>	<u>38.2</u>		
Total sales	<u>57.6</u>	<u>79.1</u>	<u>78.9</u>	<u>32.1</u>	<u>50.3</u>

Underlying the group's increasing FFB production over the three year period was the developing maturity of the agricultural operations. The oil palm area classified as mature rose from 13,080 hectares in 2007 to 18,736 hectares in 2009 but the rise in FFB production was not directly proportionate to this increase because newly maturing areas take several years to reach peak production. This was reflected in the average FFB yield per hectare which fell from 29.6 tonnes in 2007 to 26.2 tonnes in 2009. Increasing hectares of mature smallholder oil palm plantings in the vicinity of the group's operations permitted the group to increase its external purchases of FFB over the three year period.

CPO extraction rates were reasonably consistent over the period at between 23 and 23.5 per cent but there was significant improvement in the palm kernel extraction rate from 4.0 per cent in 2007 to 4.7 per cent in 2009. This was the result of factory modifications to improve nut cracking efficiency.

The trend in sales proceeds over the three years ended 31 December 2009 did not exactly mirror the upward trend in production over that period. This was principally due to two factors: international CPO prices and the incidence of Indonesian export duty. From an opening level of \$600 per tonne, CIF Rotterdam, the CPO price rose steadily during 2007 and the early months of 2008 to a high of just under \$1,400 per tonne in March 2008. It then declined rapidly to a low of \$435 per tonne in October 2008 before recovering progressively over the closing months of 2008 and then

through 2009 so as to end 2009 at just over \$800 per tonne. The average prices for 2007, 2008 and 2009 were, respectively, \$780, \$939 and \$681 per tonne. Net proceeds receivable by the group were, however, affected by changes over the three year period to the basis upon which duty on the export of CPO and CPKO was levied by the Indonesian government with the substitution of a sliding scale of export duty based on prevailing international prices for the previous system of a single fixed rate of duty.

The change in the basis of export duty meant, in particular, that the group did not benefit to a great extent from the very high prices of early 2008 and this was particularly the case because over the six months ended 30 June 2008 the group delivered 12,000 tonnes of CPO against previous forward sales at a fixed price of \$620 per tonne but was obliged to pay export duty on these sales calculated by reference to the international prices for CPO that were then current.

Crops and outputs for the six months ended 30 June 2010 again benefited from a larger productive area of oil palms with a further 3,333 hectares of previously immature oil palms being classified as mature with effect from the beginning of the year. CPO prices CIF Rotterdam remained broadly stable at a little above the \$800 per tonne level and, with an unchanged scale of Indonesian export duties, the average net selling price realised, after export duty and on an FOB basis at the port of Samarinda, amounted to \$711 per tonne which compared favourably with the average for the corresponding period of 2009 of \$530 per tonne.

As the above table shows, throughout the three years ended 31 December 2009, all sales were made either locally in Indonesia or in other parts of Asia. The pattern of sales during the six months ended 30 June 2010 was similar.

Profitability

The following table shows the group's earning before interest, tax, depreciation, amortisation and movement on biological assets, and profit on ordinary activities before taxation, for the years ended 31 December 2009 and for the six months ended 30 June 2009 and 30 June 2010. The information included therein has been extracted without material adjustment from the annual and half yearly reports of the company for those years and six month periods. The financial statements in the half yearly accounts were unaudited.

	<u>Year to 31 December</u>			<u>6 months to 30 June</u>	
	2007	2008	2009	2009	2010
	\$'m	\$'m	\$'m	\$'m	\$'m
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	43.3	45.7	41.3	16.3	24.5
Profit on ordinary activities before tax and minority interests	47.0	36.3	41.7	13.3	20.1

Earnings before interest, tax, depreciation, amortisation and movement on biological assets over the three years ended 31 December 2009 have not precisely followed the trend in sales revenues principally for two reasons. First, costs of sales have risen faster than revenues, in part because of inflation in most operating input costs (particularly during 2008) and in part because of higher unit costs of production reflecting the slight reduction in FFB yield per hectare described under "Production and revenue" above. Secondly, fluctuations in closing levels of agricultural produce inventories over the three years meant that the net movement in the fair value of such

inventories resulted in a credit to income of \$5.6 million in 2007, a debit of \$4.2 million in 2008 and a credit of \$1.5 million in 2009.

The movements in profit on ordinary activities before tax and minority interests differ from those in earnings before interest, tax, depreciation, amortisation and movement on biological assets mainly because of the effects of movements in the fair value of the group's biological assets (which under IFRS are treated as income). These resulted in a gain of \$8.0 million in 2007, a loss of \$2.7 million in 2008 and a gain of \$9.8 million in 2009. The loss in 2008 resulted from a decision taken by the directors in October 2008, in light of the world economic crisis at that time, temporarily to halt all new development. This meant that the FFB crops projected for the purpose of valuing the biological assets at the end of 2008 were lower than they would otherwise have been and the valuation of those assets was reduced commensurately.

For the six months ended 30 June 2010, earnings before interest, tax depreciation, amortisation and movement in biological assets again did not directly track the trend in sales revenues. This reflected a disproportionately increased cost of sales and a debit of \$1.8 million in respect of changes in the fair value of agricultural inventory (six months ended 30 June 2009: credit of \$1.2 million). The principal reasons for the disproportionately increased cost of sales were a stronger Indonesian rupiah (with an average rate of Rp 9,182 = \$1 for the first six months ended 30 June 2010 against a comparative average rate of Rp 11,031 = \$1), an increased volume of external purchases of FFB at prices higher than those prevailing in 2009 and the costs of upkeeping formerly immature oil palms reclassified as mature with effect from 1 January 2010 but not yet yielding at a level sufficient to cover costs.

Throughout the period from 31 December 2006 to 30 June 2010, the methodology applied in valuing the group's biological assets remained the same but changes to certain valuation assumptions were made during the period in line with the changing circumstances of the group. Specifically, with effect from 31 December 2007, infrastructural establishment costs were no longer treated as an input to the creation of biological assets but were instead separately capitalised and depreciated. In addition, discount rates were adjusted to reflect the changing maturity profile of the group's estates (and thus the changing risks of achieving projected crops). In the case of the REA Kaltim estates, a discount rate of 17.5 per cent was applied at the end of 2006 and 2007 and thereafter a discount rate of 16 per cent. The discount rates applied in the valuation of other estate areas were 17.5 per cent at the end of 2006 (at which time such areas were small) and thereafter 19 per cent, save that at 30 June 2010, the discount rate applied in the case of the SYB estates (which were by then producing material crops) was reduced to 17.5 per cent.

Dividends

The semi-annual dividends falling due in respect of the existing preference shares were paid as they fell due throughout the three years ended 31 December 2009 and the six months ended 30 June 2010.

Dividends per ordinary shares were paid at rates totalling 2p, 3p and 4p in respect of, respectively, 2007, 2008 and 2009. The directors expect to declare dividends totalling 5p per ordinary share in respect of 2010 (comprising an interim dividend of 2.5p per ordinary share paid on 1 October 2010 and a second interim dividend (in lieu of a final dividend) of 2.5p per ordinary share which the directors expect to declare for payment in early 2011).

The directors believe that capitalisation issues of new preference shares provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of ordinary dividends. For this reason, the company has made three capitalisation issues of new preference shares to ordinary shareholders since 1 January 2007: 1,085,795 new preference shares on 2 October 2007 on the basis of one new preference share for every 30 ordinary shares held; 1,302,954 new preference shares on 24 September 2008 on the basis of one new preference share for every 25 ordinary shares held; and 1,670,727 new preference shares on 27 September 2010 on the basis of one new preference share for every 20 ordinary shares held.

Financial condition

The following table shows the group's net debt (being the book value of long and short term borrowings and related engagements less cash and cash equivalents) and equity (inclusive of minority interests) at 31 December of each of the three years 2007 to 2009 and at 30 June 2009 and 30 June 2010, compiled from figures extracted without material adjustment from the published consolidated balance sheets of the company as at those dates, together with the ratio of net debt to equity as at each of those dates (as derived from those amounts and expressed as a percentage).

	<u>At 31 December</u>			<u>At 30 June</u>	
	2007	2008	2009	2009	2010
	\$'m	\$'m	\$'m	\$'m	\$'m
Net debt and related engagements	52.0	77.9	82.5	83.9	96.8
Equity	148.6	162.6	194.7	174.0	202.9
	%	%	%	%	%
Ratio of net debt to equity	35.0	47.9	42.4	48.8	47.7

Movements in net debt over the period from 1 January 2007 to 30 June 2010 reflected the significant events detailed below combined with net movements in cash from the combination of retained profits and expenditure on the group's development programme. The increasing equity over the same period reflected the issues of shares for cash as noted under "significant events" below, the retention of profits and other amounts credited to equity.

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

Significant events

Summaries of significant events that impacted the financial position of the group during each of the three years ended 31 December 2009 and the six months ended 30 June 2010 are set out below.

- 2007

In January 2007, £7 million nominal of sterling notes were issued for cash at a subscription price of 99.6574 per cent of par by REA Finance (increasing the nominal amount of sterling notes in issue to £22 million). This was followed in April and September 2007 by issues of, respectively, 1,500,000 ordinary shares and 1,064,581

preference shares for cash, to raise some £7.6 million, net of expenses. 1,085,795 preference shares were issued in October 2007 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above.

- 2008

In August 2008, a further £15 million nominal of sterling notes were issued for cash at a subscription price of 99.8682 per cent of par by REA Finance (increasing the nominal amount of sterling notes in issue to the present level of £37 million). 1,302,954 preference shares were issued in September 2008 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above.

The results for 2008 were stated after inclusion in the tax charge for the year of prior year adjustments totalling \$4,653,000 in respect of foreign and deferred tax arising as a result of an Indonesian tax assessment on REA Kaltim's 2006 profits at a higher level than had originally been expected. The effect was to make full provision for the assessment in question although significant elements and are currently under appeal.

- 2009

In April 2009, the group completed the renegotiation of a loan facility provided to REA Kaltim by a group of Indonesian banks as a result of which the terms of the facility were reconstituted so as to provide the group with an \$11.75 million term loan repayable over five years and a revolving working capital facility, renewable annually, of \$4.75 million.

In November 2009, the company issued 1,490,000 new 9 per cent cumulative preference shares for cash by way of a placing at a price of 103.18p per share (3.18p being an amount equal to the accrued dividend attaching to each such share at the date of allotment).

- 2010 (six months ended 30 June)

840,689 new ordinary shares of the company were issued on 1 February 2010 at a price of 43.753p per share on exercise of a director's option. Also in February, with the object of funding its new coal operations, the company issued an additional \$15 million nominal of dollar notes at \$90 per \$100 nominal of notes in conjunction with an issue by KCC (a wholly owned subsidiary of the company) of 150,000 redeemable participating preference shares of \$10 each at par.

A provision of \$5.5 million relating to tax in respect of a cash flow hedge was debited against equity in the six months ended 30 June 2010. The provision related to tax in respect of cross currency interest rate swaps entered into by the group to hedge, against dollars, the group's liability in respect of its outstanding sterling notes. The group had been advised that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise but an Indonesian tax assessment received in 2010 by REA Kaltim has denied the tax relief claimed by REA Kaltim for 2008 in relation to the swaps in question. REA Kaltim is appealing against the assessment but pending a decision on the appeal, the directors felt it appropriate

to make some provision for the inherent uncertainties of the appeal process.

External influences

The cash flows and profitability of the group have always been and must be expected to continue to be critically dependent upon the prevailing market prices for the group's products. These are primary commodities and, as such, their prices are generally determined by world supply and demand and may be influenced by any factors that affect that supply and demand. Beyond that, the group was not materially affected by governmental, economic, fiscal, monetary or political policies or factors during the three years ended 31 December 2009 and has not subsequently been so affected.

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

7. Capitalisation and indebtedness

Set out below are statements of the group's capitalisation and indebtedness and net financial indebtedness (including in each case related engagements) extracted without material adjustment from the unaudited consolidated balance sheet of the group as at 30 June 2010 (as published in the half yearly report of the company for the six months ended 30 June 2010).

<u>Capitalisation and indebtedness</u>	\$'000
Current debt	
Guaranteed	-
Secured*	1,833
Unguaranteed / unsecured	<u>-</u>
	<u>1,833</u>
Non current debt (excluding current portion of long term debt)	
Guaranteed	-
Secured*	60,371
Unguaranteed / unsecured	<u>56,148</u>
	<u>116,519</u>
Equity	
Issued share capital	43,517
Reserves	<u>9,159</u>
	<u>52,676</u>
Total	<u>171,028</u>

* of which \$9,469,000 was secured by charges over substantially the whole of the assets and undertaking of REA Kaltim and \$52,702,000 was secured by pledges by REA Finance over unsecured loans owed to it by REA Kaltim and SYB

Since 30 June 2010, there has been no material change to the amounts included in the above statement save that (i) the issue of 1,670,727 preference shares on 27 September 2010 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above resulted on the date of such issue in the reclassification of £1,670,727 of the reserves shown above as share capital; and (ii) further drawings have been made by the group under certain of its facilities as described in more detail under

"Current indebtedness and cash resources" below.

Reserves at 30 June 2010 exclude group retained earnings of \$148.353 million.

<u>Net financial indebtedness</u>	\$'000
Liquidity	
Cash	(21,587)
Cash equivalents	-
Trading securities	-
	<u>(21,587)</u>
Current financial receivable	=
Current financial debt	
Current bank debt	1,800
Current portion of non current debt	-
Other current financial debt	33
	<u>1,833</u>
Net current financial indebtedness	<u>(19,754)</u>
Non current financial indebtedness	
Non current bank loans	7,669
Bonds issued	95,851
Other non current loans	12,999
	<u>116,519</u>
Net financial indebtedness	<u>96,765</u>

The group has no material indirect or contingent indebtedness save that in connection with the development of oil palm plantings owned by village cooperatives and managed by the group, the group has guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance covered by such guarantees at 30 June 2010 amounted to Rp 2.9 billion (\$3.1 million).

8. Capital resources

Recent cash flows

The following table provides a summary of the cash flows of the group for the year ended 31 December 2009 and the six months ended 30 June 2010 and has been extracted without material adjustment from the consolidated cash flow statements (and notes thereto) included in annual and half yearly reports of the company for, respectively, 2009 and the six months ended 30 June 2010.

	Year to 31 December 2009 \$'000	6 months to 30 June 2010 \$'000
Operating cash flows	40,079	26,474
Movements in working capital	(1,250)	(11,681)
Taxes paid	(2,284)	(7,551)
Interest paid	<u>(6,901)</u>	<u>(3,834)</u>
Net cash from operating activities	29,644	3,408
Investing activities	(34,782)	(16,394)
Financing activities	<u>(4,268)</u>	<u>12,543</u>
	(9,406)	(443)
Opening cash and cash equivalents	30,316	22,050
Effect of exchange rate changes	<u>1,140</u>	<u>(20)</u>
Closing cash and cash equivalents	<u>22,050</u>	<u>21,587</u>

Cash and cash equivalents reduced over 2009 from \$30.3 million to \$22.1 million. The reduction of \$9.4 million (adding back \$1.2 million benefit

from the effect of exchange rate changes) represented \$5.1 million utilised in funding that element of investing activities not met by net cash from operating activities and \$4.3 million in meeting a net outflow on financing activities. For the six months ended 30 June 2010, the net cash outflow on investing activities was substantially balanced by net cash from operating activities and the net cash inflow from financing activities.

Investing activities for 2009 involved a net outflow of \$34.8 million. This represented new investment totalling \$35.8 million, offset by inflows from interest and other items of \$1.0 million. The new investment comprised expenditure on further development of the group's plantations of \$27.0 million, on land rights and titling of \$1.3 million and on the acquisition and development of coal concession rights of \$7.5 million. For the six months ended 30 June 2010, investing activities are made up of a cash inflow of \$0.7 million, in respect of interest and other items, and a cash outflow of \$17.1 million, representing development expenditure.

The net cash outflow on financing activities for 2009 of \$4.3 million was made up of a net inflow from the issue of preference shares of \$2.5 million, net repayments of bank debt and finance lease obligations of \$2.8 million and an outflow in respect of dividend payments of \$4.0 million. For the six months ended 30 June 2010, financing activities are made up of a net cash inflow of \$15.5 million in total from issues by the company of 840,689 new ordinary shares on exercise of a director's option and of an additional \$15 million nominal of dollar notes and by KCC of 150,000 redeemable participating preference shares, as referred to under "Significant events" in "Operating and financial review" above, and cash outflows comprising \$2.2 million paid by way of dividend on the existing preference shares and \$0.8 million of bank debt repayments.

For the period from 1 July 2010 to the date of this document, net cash flows from operating activities, preference dividend payments and development expenditure have continued on a basis that is normal for the group save only that cash payments during the period have included settlement, pending appeal, of Rp 77.6 billion (\$8.7 million) of tax arising on the disputed Indonesian tax assessment referred to in the 2010 section of "Significant events" under "Operating and financial review" above.

Current indebtedness and cash resources

Group indebtedness and related engagements at 30 June 2010 as detailed under "Capitalisation and indebtedness" above amounted to \$118.3 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of \$9.5 million, £37 million of sterling notes (carrying value: \$52.7 million), \$11.5 million in respect of the hedge of the principal amount of the sterling notes as described below, \$45 million nominal of dollar notes (carrying value: \$43.1 million) and other indebtedness of \$1.5 million. Following drawings under available facilities totalling \$10.70 million as detailed below and debt repayments of \$0.37 million, group indebtedness and related engagements now total (on the basis of exchange and interest swap rates prevailing at 30 June 2010) \$128.6 million.

The sterling notes are issued by REA Finance, a wholly owned subsidiary of the company. They are guaranteed by the company and are secured by pledges by REA Finance over unsecured loans owed to it by REA Kaltim and SYB, and are repayable by three equal annual instalments commencing 31 December 2015. Subject to receipt of the necessary Indonesian bank consents, it is proposed that the pledges by REA Finance over the unsecured loans owed to it by REA Kaltim and SYB will be released, the loans will be assigned to REA Services and the assigned loans will be

charged by REA Services as security for a guarantee to be given by REA Services in respect of the sterling notes. It is expected that such restructuring will become effective in the near future.

The dollar notes are unsecured obligations of the company. They are repayable by three equal annual instalments commencing 31 December 2012.

Borrowings under the Indonesian consortium loan facility, as described in more detail at material contract (d) of Part VII (Additional information) below, are secured on the assets of REA Kaltim and are guaranteed by the company. The outstanding balance under the facility at 30 June 2010 was repayable as follows: 2010: \$0.75 million; 2011: \$2.1 million; 2012: \$2.7 million; 2013: \$3.6 million and 2014: \$0.3 million.

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

The group has working capital lines of \$5.75 million for its agricultural operations and \$3 million for its coal operations that are subject to annual renewal. Furthermore, as described in more detail at material contract (i) of Part VII (Additional information) below, the group has recently completed arrangement of a loan facility in the amount of Rp 350 billion (\$38.5 million) available for drawing over a four year period to meet development expenditure by SYB and repayable over the immediately following four year period. There were no drawings under such facilities as at 30 June 2010 but since that date drawings of \$10.70 million (on the basis of exchange rates prevailing at 30 June 2010) have been made. The group thus retains significant undrawn facilities. In addition, the group currently holds cash and cash equivalents totalling \$12.45 million, after payment of the dividend of 2.5 pence per share on the ordinary shares of the company on 1 October 2010.

On the basis of figures extracted without material adjustment from the consolidated financial statements and notes thereto included in the annual report of the company for 2009 and the half yearly report of the company for the six months ended 30 June 2010 (such statements and notes in the latter case were unaudited), interest cover (being taken as the ratio of earnings before interest, tax, depreciation, amortisation and movement on biological assets to interest payable) was 4.0 for 2009 and 4.27 for the six months ended 30 June 2010. The ratios of net debt to equity for that year and period are detailed in "Financial condition" under "Operating and financial review" above.

Financing of planned development expenditure

The planned planting of a further 8,000 hectares of oil palm during 2010 and 2011 and the concomitant requirement for continuing investment in estate buildings, oil palm processing facilities and other estate plant and equipment will involve the group in continuing major capital expenditure over the next two years. As a rule of thumb, the directors estimate the current cost of developing a hectare of oil palms from nursery to maturity (including land preparation, infrastructure and necessary buildings and plant and equipment) at \$5,400 and the current cost of a new oil mill, with capacity of 80 tonnes of FFB per hour, at \$16 million.

Provided that the CPO price remains at or near current levels, the directors expect that continuing capital expenditure can largely be funded from

internally generated cash flow and the group's existing cash and cash equivalents (ignoring any proceeds from the proposed issue of new preference shares) supplemented to a limited extent by drawings under available bank facilities to meet short term fluctuations in working capital requirements.

Given the volatility of commodity markets, the directors cannot rely on CPO prices remaining at new current levels and, whilst the expansion programme can, in extremity, be rapidly scaled back to align with available cash, once areas have been planted with oil palms, some or all of the benefits of investment thereby made will be lost if the areas are not maintained and the milling capacity needed to process the resultant FFB is not installed. Accordingly, the directors believe that it is essential that the group holds some cash cushion to meet possible calls for additional cash to fund the oil palm expansion programme and it is primarily to this end that the group has arranged the Rp 350 billion development loan referred to under "Current indebtedness and cash resources" above that is currently drawn only to the extent of Rp 54 billion.

During 2010 and 2011, capital will be required by the coal operations to fund the development of the Kota Bangun concession and to meet the working capital requirements that will arise if the coal operations develop as envisaged. It is expected that the funds provided to the coal operations from the recent issue of additional dollar notes and KCC participating preference shares will be sufficient for these purposes. In addition, the coal operations have available to them the \$3 million working capital line referred to under "Current indebtedness and cash resources" above.

Financing policies

The directors believe that, in order to maximise returns to holders of the company's ordinary shares, it is essential that a proportion of the group's funding needs are met with borrowings and preference share capital.

As respects borrowings, the directors believe that the group's interests are best served if its 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 borrowings for the group's agricultural operations so that shorter term bank debt is used only to finance working capital requirements, while debt funding for the group's extension planting programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

The directors believe that new projects within the coal operations can be brought into commercial production more rapidly than new oil palm plantings and that the coal operations can therefore justify borrowing on a shorter term basis than the agricultural operations. However, given recent events in the banking sector, the directors believe that no operations of the group should allow themselves to become reliant on bank finance. Accordingly, the directors intend that the coal operations should also be financed principally by issues of listed debt securities.

The directors believe that the group's existing capital structure is consistent with the group's financing policy objectives but recognise that the planned further development of the group and the inevitable shortening of the maturity profile of the group's current indebtedness that results from the passage of time will mean that action will be required to ensure that the group's capital structure continues to meet the objectives. The proposed issue of new preference shares is viewed by the directors as one step in

this direction.

Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest is payable on drawings under the Indonesian consortium loan facility at a floating rate equal to Singapore Inter Bank Offered Rate ("SIBOR") plus a margin which, for so long as inter-bank markets remain disrupted, includes a liquidity premium reflecting the differences between SIBOR and the lending banks' costs of funds. Interest is payable on the new Rp 350 billion loan facility (described in more detail at material contract (i) of Part VII (Additional information) below) at a floating rate equal to Jakarta Inter Bank Offered Rate plus a margin. As a policy, the group does not hedge its exposure to floating rates but, insofar as is commercially sensible, borrows at fixed rates.

The group regards the dollar as the functional currency of most of its operations and has hitherto sought to ensure that, as respects that proportion of its investment in the group's operations that is met by borrowings, it has no material currency exposure against the dollar. Accordingly, where borrowings have been incurred in a currency other than the dollar, the group has endeavoured to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The recent receipt by REA Kaltim of an Indonesian tax assessment seeking to disallow for tax purposes losses on currency hedges (as referred to in "Significant events" under "Operating and financial review" above) may mean that this policy will have to be reviewed but the directors hope that the assessment will be reversed on appeal so that the existing policy can be maintained. The group does not cover the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated equity.

The group's policy is to maintain a cash balance in sterling sufficient to meet its projected sterling expenditure for a period of up to twelve months and a cash balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements but, otherwise, to keep all cash balances in US dollars.

Other

There are no restrictions under the terms of the sterling or dollar notes, or otherwise, on the use of group cash resources or existing borrowings and facilities that the directors would expect materially to impact the planned development of the group. Certain of the borrowing facilities restrict subsidiaries of the company to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies but the directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that the development of the coal operations will introduce any material swings in the group's utilisation of cash for the funding of its routine activities.

Part VI Directors, employees and corporate governance

1. Directors

The directors of the company (all being of First Floor, 32-36 Great Portland Street, London W1W 8QX) are as follows:

(a) Richard Michael Robinow (Chairman)

Mr Robinow was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, he has been involved for over 35 years in the plantation industry. He is a non-executive director but devotes a significant proportion of his working time to the affairs of the group, dealing principally with matters of strategy and finance. He is a non-executive director 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 of two overseas listed plantation companies: Sipef NV, Belgium, and REA Vipingo Plantations Limited, Kenya. Aged 64.

(b) John Clifton Oakley (Managing director)

After early experience in investment banking and general management, Mr Oakley joined the group in 1983 as divisional managing director of the group's then horticultural operations. He was appointed to the main board in 1985 and subsequently oversaw group businesses involved in tea, bananas, pineapples and merchanting, transferring in the early 1990's to take charge of the day to day management of the group's then embryonic East Kalimantan agricultural operations. He was appointed managing director on 1 January 2002. As the sole executive director, he has overall responsibility for operational control of the group. Aged 62.

(c) David John Blackett (Senior independent non-executive director)

Mr Blackett was appointed a non-executive director in July 2008 and was subsequently appointed as chairman of the audit and remuneration committees and as senior independent non-executive director. 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 60.

(d) John McDonald Green-Armytage (Independent non-executive director)

Mr Green-Armytage was a non-executive director from 1984 to 1994. He rejoined the board in a non-executive capacity in 1997 and subsequently for several years served as chairman of the audit and remuneration committees. After a career in investment banking, he moved to become managing director of a UK listed company with South East Asian involvement. He has

subsequently held directorships of a number of companies in both executive and non-executive capacities. These currently include the chairmanship of AMEC PLC. Aged 65.

- (e) John Rankin Macdonald Keatley (Independent non-executive director)

Mr Keatley was a non-executive director from 1975 to 1983 and chairman from 1978 to 1983. He rejoined the board in a non-executive capacity in 1985 and is a member of the nomination committee. After a background in the fertiliser industry, he is now involved in a family business investing in property in the UK and elsewhere. Aged 77.

- (f) David Henry Rothwell Killick (Independent non-executive director)

Mr Killick was appointed a non-executive director in 2006 and is a member of the audit and remuneration committees and chairman of the nomination committee. After qualifying as a barrister, he became a Fellow of the Institute of Chartered Secretaries and Administrators. He worked for over 28 years for the Commonwealth Development Corporation, serving as a member of its management board from 1980 to 1994. Thereafter, he has held a number of directorships. He is currently a director of Reallyenglish.com Limited and a member of the council of management of Slough Council for Voluntary Service. Aged 72.

- (g) Lionel Edgar Charles Letts (Independent non-executive director)

Mr Letts was appointed a non-executive director in 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 92.

- (h) 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 in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. He is chairman of SPC Power Corporation, a public company listed on the Philippines Stock Exchange, and a director of Agusan Plantations Inc, Philippines, Agumil Philippines Inc and Pan Abrasives (Private) Limited, Singapore. Aged 68.

Directors fall due for retirement under the articles of association of the company as follows: 2012 – Mr Blackett, Mr Lim and Mr Oakley; and 2013 – Mr Robinow, Mr Green-Armytage, Mr Keatley, Mr Killick and Mr Letts. In order to comply with the Combined Code, all of the directors, other than Mr Oakley, Mr Blackett and Mr Killick, intend to submit themselves for re-election every year.

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

No director is a member of the family of any other director.

2. **Succession planning**

In recent years, the size and range of the group's activities has expanded and this has created management challenges. In responding to these challenges, the directors have given priority to enhancing operational management capacity. With the staffing capacity and support now available to the group in Indonesia, they believe that the group has achieved reasonable operational resilience in the event of local staff retirements or resignations. However, the directors recognise that there is now a requirement also to enhance senior management capacity outside Indonesia and are turning their attention to meeting this requirement.

The directors have in the past had concerns as to whether the current situation in which Indonesian businesses are owned through a UK listed company, with the UK overheads that this entails, is an appropriate long term structure for the group. Recent years have seen an increase in the number of plantation companies listed on the London Stock Exchange and with this has come increased investment research coverage of the plantation sector. This is improving the company's access to investors. Moreover, the directors believe that the company's continued UK listing has facilitated the various note issues that the group has made in recent years (which have been an important source of medium term funding for the group). In these circumstances, the directors have concluded that, for the time being at least, the group should retain its current structure.

Nevertheless, the directors believe that better value will be obtained from additions to senior management if new staff recruited can not only provide support for the functions currently undertaken in London but are also close enough to the group's operations to provide assistance on a day to day basis to the group's management in Indonesia. Accordingly, the group has decided to work towards opening a small regional office in Singapore and is in the process of recruiting an experienced and commercial manager to head the new office. The immediate function of the new office will be to provide greater capacity to handle the increasing workload falling on existing senior management but the group plans that new staff put in place for this purpose should ultimately provide options for succession to existing top management (although the existing group managing director and the chairman have indicated their willingness to continue working as a team for several more years).

A perceived advantage of opening the proposed new office in Singapore is that it will preserve flexibility as respects the possibility that the group may one day, after all, decide to reconstitute itself as a wholly South East Asian based group or to list separately part of its operations (as, for example, the coal operations) on a South East Asian stock exchange.

The board intends to continue as currently constituted pending full implementation of its plans for the establishment of the new Singapore office (projected to be complete by the end of 2011) but has agreed that thereafter the composition of the board should be reconstituted and in future refreshed on the basis of a policy that length of service by independent non executive directors be limited to nine years.

3. **Directors'**

Shareholdings

interests

As at the date of this document, the interests of the directors in the share capital of the company including the interests of persons connected with the directors for the purposes of section 252 of the Act are as follows:

	Preference shares	Ordinary shares
R M Robinow	500,290	10,005,833
J C Oakley	22,637	442,493
D J Blackett	250,000	-
J M Green-Armytage	12,481	80,704
J R M Keatley	85,712	680,878
D H R Killick	-	20,000
L E C Letts	20,400	108,000
C L Lim	-	-

No director has any options over shares in the capital of the company.

Other directorships

Save for Mr Killick's membership of Nominee No. 95 LLP (in relation to his activities as an underwriting member of Lloyds), no director is currently, or has been within the five years preceding the date of this document, a partner in a partnership. Companies of which the directors are currently, or have been within the five years preceding the date of this document, directors, in addition to the company and its subsidiaries, are as follows:

(a) R M Robinow

Current directorships – Aftex Limited, British New Guinea Development Limited, Deundi Tea Company Limited, East African Forestry Limited, Emba Holdings Limited, Emba Services Limited, M.P. Evans Group plc, REA Vipingo Plantations Limited, R.E.A. Trading Limited, Robinow Limited, Rue des Binelles Property Limited, Sipef NV, Unitbuckle Holdings Limited, Unitbuckle Limited, Wigglesworth & Co. Limited and Wellington plc.

Past directorships - Portshare Limited and Sisal and General Consultants Limited.

(b) J C Oakley

Current directorships – None.

Past directorships – None.

(c) D J Blackett

Current directorships – South China Holdings Limited.

Past directorships – None.

(d) J M Green-Armytage

Current directorships – Amec PLC, Cannock Chase Capital BV, Collecta Servicios de Gestion de Cobros S.A., Freedom Finance Holdings Limited, Grupo Galilea Puig SA, Guards Polo Club Holdings Limited, Hurlingham Polo Association Limited, JZI Finance I Limited, JZI Finance 2 Limited, JZ Financial Services BV, JZ International Limited, JZ Insurance Services BV, JZ Insurance Investments SLU, JZ Italy srl, JZ Mortgage Services BV, JZ Prevhold BV, Mace Investments Limited, Mace Management Services Limited, Previnet Spa, Star Capital Partners Limited and William Evans Holdings

Limited.

Past directorships – Active Capital Trust PLC, Acuma Holdings Limited, The Aim Trust PLC, Berkeley Insurance Ltd, Berkeley (Insurance) Holdings Limited, Children's Consumer Products UK Limited, International Biotechnology Trust PLC, Jordan/Zalaznick & Co Limited, Jordan/Zalaznick (Holdings) Limited, JZ Equity Partners Plc, JZEP Preferred Holdings Limited, Mancal Corporation International and Vivid Imaginations Holdings (UK) Limited.

(e) J R M Keatley

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

Past directorships – Ashtenne Residential Capital Limited.

(f) D H R Killick

Current directorships – Reallyenglish.com Limited and Slough Council for Voluntary Service.

Past directorships – Abbeyfield (Burnham) Society Limited, Clifton Hall School Limited and Siberia Investment Management Co Limited.

(g) L E C Letts.

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

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

(h) C L Lim

Current directorships – Agumil Philippines, Inc, Agusan Plantations, Inc, Bantayan Island Power Corporation, Bohol Light Company, Inc, Bohol Water Utilities, Inc, Clerk Holdings Sdn Bhd, ITE Electric Co., Ltd, ITE Electric Phils. Co., Inc, Kovet Pte Ltd, Mactan Electric Company, Palawan Palm and Vegetable Oil Mills, Inc., Pan Abrasives (Aust) Pty Ltd, Pan Abrasives (Pte) Ltd, Pan Abrasives Sdn Bhd, Philippine Agriculture Land Development and Mill, Inc, PPDIC Management Co., Inc, Salcon International, Inc, Salcon Philippines, Inc, SPC Power Corporation, Salcon Technologies, Inc, Salmin Water Resources, Inc, Salcon Properties & Development Corporation, SPEC Properties, Inc, Tricol Pte Ltd and Visland Water Corporation.

Past directorships – Aspac Properties Co., Ltd, Astoria Sdn Bhd, First Consolidated Bank Inc, Gima Technology Pte Ltd, Hayako Utama Pte Ltd, IBR Bio-Recovery (Van. Is.) Limited, International Bio Recovery Corporation, Myanmar Salcon Limited, Nothern Davao Power Corporation, Pacwest (M) Sdn Bhd, Pan Abrasives Thailand Ltd, Pan Abrasives, Inc, Pan Intermart Pte Ltd, Pan Salcon Asia Limited, Pan Sinto Pte Ltd, Pan Technologies Pte Ltd, Panabrator (Private) Ltd, PT Multi Mechsindo Industries, PT Salindo Jaya Perkasa, Rolform Sdn Bhd, Salcon (Australasia) Pty Ltd, Salcon Bio Technologies Pte Ltd, Salcon Engineering GmbH, Salcon Harbin Corporation, Salcon Island

Power Corporation, Salcon Invent Limited, Salcon Limited, Salcon Thai Co. Ltd, Salcon-Waltech (Asia) Limited, Salpro Sdn Bhd, Solar Technology Pte Ltd, Speedlock Pty Ltd, Steel & FRP Fabrication Co. Ltd, Taipan Asia Sdn Bhd and Western Panay Hydropower Corporation.

Past conduct

Within the past five years, no director:

- (a) has been convicted in relation to a fraudulent offence;
- (b) has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation;
- (c) has received any official public incrimination and/or sanction by any statutory or regulatory authority (including designated professional bodies) and has not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

Conflicts of interest

As noted under "Other directorships" above, Mr Robinow is a director of M.P. Evans Group plc and 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.

As detailed under "Significant shareholders" in Part VII (Additional information) below, Mr Robinow, together with his immediate family and other members of the Robinow family, 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.

Save as aforesaid, no director of the company has any potential conflicts of interest between his duties to the company and his private interests or other duties.

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

Sales of securities of the company held by directors

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

4. **Directors' remuneration**

The remuneration paid (including any contingent or deferred compensation) and benefits in kind granted by the group to each of the directors in respect of the year ended 31 December 2009 were as follows:

	Remuneration £'000	Benefits £'000	Total £'000
R M Robinow	168	4	172
J C Oakley	258	30	288
D J Blackett	17	-	17
J M Green-Armytage	17	-	17
J R M Keatley	17	-	17
D H R Killick	17	-	17
L E C Letts	17	-	17
C L Lim	17	-	17

Note: The amounts expressed in the above table as payable to Mr Green-Armytage, Mr Letts and Mr Lim were to companies in which Mr Green-Armytage, Mr Letts and Mr Lim were, respectively, interested.

In 2006, Mr Oakley received a benefit in kind relating to the tax liability arising on a gain on exercise of share options. It was agreed with Mr Oakley that he would effectively refund this amount by commensurate reduction in future remuneration to which he would otherwise become entitled after 1 January 2008. As a result, his remuneration in respect of the year ended 31 December 2009 was £71,000 less than the remuneration that he would otherwise have been paid.

In the period from 1 January 2010 to the date of this document, remuneration has continued to be paid in respect of directors' services on the same basis as in 2009 (subject to normal annual increments), save that it has been agreed that members of the audit committee be paid an additional fee of £2,500 per annum in recognition of the additional services they perform by virtue of such membership.

Mr Oakley was an ordinary member of the R.E.A. Pension Scheme until 31 July 2009 when he elected to become a pensioner member of the scheme. The REA Pension Scheme is a multi employer contributory defined benefits scheme with assets held in a trustee administered fund. The pension contribution payable in respect of Mr Oakley for 2009 was £30,866. No pension contribution is payable in respect of any other director.

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

5. **Employees**

The average number of persons employed by the group during the three years ended 31 December 2009 and their allocation by activity was as follows:

	2007	2008	2009
Agricultural (permanent)	3,059	3,416	3,929
Agricultural (temporary)	2,488	2,578	2,210
Coal	-	2	14
Head office	<u>7</u>	<u>7</u>	<u>7</u>
	<u>5,554</u>	<u>6,003</u>	<u>6,160</u>

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

6. **Long term**

A first long term incentive plan (the "first plan") was established in 2007 and a second similar plan (the "second plan") was put in place in 2009. The

incentive plans first and second plans (together the "plans") are designed to provide incentives, linked to the market price performance of ordinary shares in the company, to a small number of key senior executives in Indonesia with a view to their participating over the long term in value created for the group. No director may participate. The first plan period commenced on 1 January 2007 and ends on 31 December 2010 and the second plan period commenced on 1 January 2009 and ends on 31 December 2012 (the "performance periods").

Under the plans, participants are awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vest to an extent that is dependent upon the achievement of targets. A vested entitlement may be exercised in whole or part at any time from 1 January 2011 until 31 December 2016 under the first plan and from 1 January 2013 to 31 December 2018 under the second plan. On exercising a vested entitlement, a participant will receive a cash amount for each ordinary share over which the entitlement is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over 433.5p in the case of the first plan and 231.5p in case of the second plan, being the market prices of an ordinary share on the dates with effect from which the plans were agreed.

The extent to which a participant's potential entitlement to notional ordinary shares under a plan will vest will be determined by key performance targets. In the case of the first plan, there are three key performance targets which relate to total shareholder return, cost per tonne of CPO produced and annual planting rate achieved. In the case of the second plan, there are two key performance targets which relate to total shareholder return and cost per tonne of CPO produced. Each performance target is measured on a cumulative basis over the applicable performance period. Each performance target governs the vesting, in the case of the first plan, of one third, and, in the case of the second plan, of one half, of each potential entitlement and for each performance target there are threshold, target and maximum levels of performance which determine the exact number of notional ordinary shares that vest in relation to that target. The remuneration committee has discretion to adjust targets if it considers that actual performance warrants this.

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

In the event of a change in control of the company as a result of a takeover offer or similar corporate event, potential entitlements will vest on a basis that reflects achievement of performance targets up to the date (the "applicable date") of such change of control or other relevant event (as

determined by the remuneration committee) and time apportioned for the elapsed portion of the applicable performance period up to the applicable date expressed as a fraction of the full applicable performance period. The resultant vested entitlements will be exercisable for a period of one month following the applicable date.

The total numbers of notional ordinary shares over which awards of potential entitlements have been made amount to 195,000 under the first plan and 65,000 under the second plan. On the basis of the market price of the ordinary shares on 4 October 2010 (being the latest practicable date prior to the date of this document) of 677.5p per share, the total gain to participants in respect of the potential entitlements awarded would, if such entitlements had vested in full, have been £766,000.

7. Corporate governance

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, in a manner proportionate to the company's size, the principles laid down in the Combined Code 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. As at the date of this document, in the opinion of the directors, the company is in compliance with the provisions of section 1 of the Combined Code.

The board has appointed audit, nomination and remuneration committees, with written terms of reference (which are available on the company's website www.rea.co.uk), to undertake certain of the board's functions. Further information regarding the audit and remuneration committees is provided under "Audit committee" and "Remuneration committee" below. The nomination committee is responsible for recommending new appointments to the board.

8. Audit committee

The audit committee comprises David Blackett and David Killick. It is responsible for:

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

The members of the audit committee discharge their responsibilities by informal discussions between themselves, by meetings with the external auditors, the internal auditors in Indonesia and management and by consideration of reports by management, the Indonesian internal audit

function and the external auditors, and by holding at least three formal meetings in each year.

9. **Remuneration committee**

The remuneration committee comprises David Blackett and David Killick. It is responsible for:

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

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

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

Part VII Additional information

1. The company

The company was incorporated and registered in England and Wales on 27 September 1960 as a private company limited by shares under the Companies Act 1948 with registered number 671099 and was re-registered on 15 February 1982 as a public limited company under the Companies Acts 1948 to 1980. The company is subject to the provisions of the Act. The registered and head office of the company is First Floor, 32-36 Great Portland Street, London W1W 8QX (telephone + 44 (0)20 7436 7877).

The company is the parent company of a group of companies and is not itself a subsidiary of any other company.

2. Share capital

Existing capital

The existing authorised and issued share capitals of the company are as follows:

	<u>Authorised</u>		<u>Issued and fully paid</u>	
	Number	Amount £	Number	Amount £
Preference shares	27,500,000	27,500,000	18,063,681	18,063,681
Ordinary shares	41,000,000	10,250,000	33,414,545	8,353,636

Proposed capital

The authorised and issued share capitals of the company as they will be following completion of the proposed issue, assuming the maximum number of new preference shares are subscribed, will be as follows:

	<u>Authorised</u>		<u>Issued and fully paid</u>	
	Number	Amount £	Number	Amount £
Preference shares	27,500,000	27,500,000	27,063,681	27,063,681
Ordinary shares	41,000,000	10,250,000	33,414,545	8,353,636

No shares of the company are or following the proposed issue are proposed to be held by the company in treasury or beneficially owned by the company or any subsidiary of the company.

Recent changes in capital

Since 31 December 2006, there have been the following changes in the authorised and issued share capitals of the company:

- (a) on 9 May 2007, 1,500,000 ordinary shares were issued, fully paid, by way of a placing at £4.50 per share;
- (b) on 5 September 2007, 1,064,581 preference shares were issued, fully paid, by way of a placing at £1.05 per share;
- (c) on 2 October 2007, 1,085,795 preference shares were issued, credited as fully paid at par, by way of a capitalisation issue to ordinary shareholders;
- (d) on 6 June 2008, the authorised share capital of the company was increased from £24.75 million to £27.75 million by the creation of 3,000,000 preference shares;
- (e) on 24 September 2008, 1,302,954 preference shares were issued,

credited as fully paid at par, by way of a capitalisation issue to ordinary shareholders;

- (f) on 6 November 2009, 1,490,000 preference shares were issued, fully paid, by way of a placing at £1.0318 per share;
- (g) on 1 February 2010, 840,689 ordinary shares were issued, fully paid, for cash at £0.43753 per share on the exercise by Mr J C Oakley of an option to subscribe the same;
- (h) on 8 June 2010, the authorised share capital of the company was increased from £27.75 million to £37.75 million by the creation of 10,000,000 preference shares;
- (i) on 27 September 2010, 1,670,727 preference shares were issued, credited as fully paid at par, by way of a capitalisation issue to ordinary shareholders.

Authority to issue securities and pre-emption rights

The provisions of section 561 of the Act (to the extent not disapplied pursuant to section 570 or 571 of the Act) confer on holders of ordinary shares rights of pre-emption in respect of the allotment of equity securities (as defined in section 560(1) of the Act) which are to be paid up in cash.

By resolutions passed on 8 June 2010:

- (a) the directors were generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into:
 - (i) shares in the capital of the company (other than preference shares) up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or to convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £2,784,545; and
 - (ii) preference shares up to an aggregate nominal amount of £11,107,046,

such authorisations to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2011), save that the company may before such expiry make any offer or agreement which would or might require shares/preference shares (as applicable) to be allotted, or rights to be granted, after such expiry and the directors may allot shares, or grant rights, in pursuance of any such offer or agreement as if the said authorisations had not expired; and

- (b) the directors were given power:
 - (i) for the purposes of section 570 of the Act, to allot equity securities (as defined in sub-section (1) of section 560 of the Act) of the company for cash pursuant to the authorisation referred to at paragraph (a)(i) above; and
 - (ii) for the purposes of section 573 of the Act, to sell ordinary shares (as defined in sub-section (1) of section 560 of the Act) in the capital of the company held by the company as treasury

shares for cash

as if section 561 of the Act did not apply to the allotment or sale, provided that such powers shall be limited:

- (A) to the allotment of equity securities in connection with a rights issue or open offer in favour of holders of ordinary shares and to the sale of treasury shares by way of an invitation made by way of rights to holders of ordinary shares, in each case in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for participation in the rights issue, open offer or invitation but subject in each case to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares (other than treasury shares being sold), record dates or legal, regulatory or practical difficulties which may arise under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; or
- (B) otherwise than as specified at (A) above, to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or convert any security into, shares in the capital of the company, in accordance with subsection (6) of section 551 of the Act) of £417,681

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2011), save that the company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

There are no rights of pre-emption attaching to the preference shares.

Authorisations for the proposed issue

The new preference shares have already been created under the laws of England and Wales. They will be issued by resolutions of the board pursuant to the authority referred to at paragraph (a)(ii) of "Authority to issue securities and pre-emption rights" above.

- 3. **Company's objects** The company's principal object is to act as and perform the functions of an investment or holding company. This object was incorporated into the articles on 1 October 2009 by virtue of section 28 of the Act.
- 4. **Articles of association** The articles contain provisions, *inter alia*, to the following effect:
 - (a) Voting rights
 - (i) Save as otherwise provided in the articles, at any general meeting, on a show of hands each shareholder present in person and entitled to vote shall have one vote and upon a poll each such shareholder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.
 - (ii) Preference shareholders have the right to receive notice of and to attend any general meeting where the business of the meeting includes a resolution on which such preference shareholders are

entitled to vote.

- (iii) Preference shareholders are entitled to vote upon any resolution for the winding up of the company or directly and adversely affecting any of the special rights or privileges attached to such shares but not otherwise unless at the date of a notice convening a meeting at which any resolution is to be proposed the dividend on such shares is six months in arrears.
- (iv) No shareholder shall, unless the directors otherwise determine, be entitled to vote at any general meeting or count in a quorum if any call or other sum presently payable by him in respect of shares remains unpaid or if a shareholder has been served by the directors with a restriction notice in accordance with paragraph (b) below.

(b) Restrictions on shares

If a member or any person appearing to be interested in shares in the company has been duly served with a notice pursuant to section 793 of the Act and is in default in supplying to the company information thereby required within 14 days from the date of service of such notice the company may serve on such member or on any such person a notice (a "restriction notice") in respect of the shares in relation to which the default occurred ("default shares") and any other shares held at the date of the restriction notice directing that the member shall not be entitled to be present or to vote at any general meeting or class meeting of the company. Where the default shares represent at least 0.25 per cent in nominal value of the issued shares of the company of the same class the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the default shares shall be retained by the company without liability to pay interest; where the company has offered the right to elect to receive shares instead of cash in respect of any dividends any election by such member of such restricted shares will not be effective; and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that none of the shares which are the subject of the transfer are default shares.

(c) Dividends

- (i) Preference shareholders are entitled to be paid out of the profits of the company available for dividend and resolved to be distributed a fixed cumulative preferential dividend of 9 per cent per annum (exclusive of the imputed tax credit available to preference shareholders) on the nominal amount paid up on such preference shares. The preference shares shall rank for dividend in priority to the payment of any dividend to the holders of any other class of shares. The preferential dividend shall be payable half-yearly in equal amounts on 30 June and 31 December in respect of the half years ending on those dates.

- (ii) Subject to the rights of the preference shareholders, ordinary shareholders are entitled to share equally with the other holders of ordinary shares (but as between them proportionately to the amount paid up on their respective shareholdings) in any dividend paid on the issued ordinary share capital of the company.
 - (iii) The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors. Subject to the provisions of the Act, the directors may pay such interim dividends as they think fit and may pay the fixed dividends payable on any shares of the company half-yearly or otherwise on fixed dates. No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Act.
 - (iv) Subject to the Act and any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which a dividend is declared.
 - (v) The directors may, with the sanction of an ordinary resolution of the company in general meeting, offer the shareholders the right to elect to receive new shares of the same class credited as fully paid instead of cash in respect of the whole or part of any dividend.
 - (vi) Any dividend unclaimed for a period of twelve years after it became due for payment shall be forfeited and shall revert to the company.
- (d) Return of capital
- (i) On a winding up of the company or other repayment of capital the assets of the company available for distribution among shareholders shall be applied in repaying to the preference shareholders the amounts paid up in respect of the nominal value of such shares together with a sum equal to any arrears and accruals of the fixed dividend thereon to be calculated down to the date of the commencement of the winding up or the date of repayment of capital (as the case may be) and to be payable irrespective of whether such dividend has been declared or earned or not. The preference shares shall rank on a winding up of the company or any other return of capital in priority to any other shares of the company for the time being in issue.
 - (ii) Subject to the rights of the preference shareholders and to any rights which may be attached to any other class of shares, any surplus assets of the company available for distribution among shareholders on a return of assets on a winding up shall be applied in repaying to the ordinary shareholders the amounts paid up on such ordinary shares and, subject thereto, shall belong to and be distributed among such ordinary shareholders rateably according to the number of ordinary shares held by them respectively.
 - (iii) On a liquidation, the liquidator may, subject to the Act and with the sanction of a special resolution of the company and any other sanction required by the Act, divide amongst the shareholders in specie or in kind the whole or any part of the assets of the company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.

(e) Variation of class rights

If at any time the share capital of the company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Act and any other act or regulation relating to companies (the "Statutes"), be modified, abrogated or varied either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of Chapter 3 of part 13 of the Act (excluding sections 303 to 306) and the provisions of the articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares) and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy may demand a poll upon which every holder of shares of that class shall be entitled to one vote for every such share held by him. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the terms upon which such shares are for the time being held, be deemed not to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.

(f) Alteration of capital

- (i) The company may by ordinary resolution increase its share capital, consolidate all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.
- (ii) Subject to the provisions of the Statutes, the company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iii) Subject to the provisions of the Statutes, all unissued shares of the company are at the disposal of the directors and any shares may be allotted on terms that they are redeemed or liable to be redeemed at the option of the company or the shareholders on the terms and in the manner provided for by the articles.
- (iv) Subject to the provisions of the Statutes, the company may purchase its own shares (including any redeemable shares).

(g) Transfer of shares

- (i) The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers of certificated shares shall be effected by instrument in writing in any usual or common form or any other form which the directors may approve. The directors may, in their absolute discretion and without giving any reason, refuse to register the

transfer of a share which is not fully paid (whether certificated or uncertificated) provided that where such shares are admitted to the Official List, such discretion may not be exercised in a way which the FSA or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis. The directors may likewise refuse to register any transfer of a share (whether certificated or uncertificated) in favour of more than four persons jointly. In relation to certificated shares, the directors may decline to recognise any instrument of transfer unless it is left at the registered office of the company or such other place as the directors may determine, accompanied by the relevant certificate and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do), and unless the instrument is in respect of only one class of share. If the directors refuse to register a transfer they shall, in the case of certificated shares, within two months after the date on which the transfer was lodged with the company, send to the transferee notice of the refusal and (except in the case of fraud) return to him the instrument of transfer or, in the case of uncertificated shares, notify such person as may be required by the Regulations and the requirements of the relevant system concerned.

- (ii) Notwithstanding any other provision of the articles to the contrary, unless otherwise determined by the directors, any shares in the company may be held in uncertificated form and title to shares may be transferred by means of a relevant system (in each case as defined in the Regulations) such as CREST.

(h) General meetings

- (i) An annual general meeting shall be called by not less than 21 clear days' notice, and a meeting of the company other than an annual general meeting shall be called by not less than 14 clear days' notice. The notice shall specify the place, the day and time of meeting and the general nature of business to be transacted at the meeting. A notice calling an annual general meeting shall specify the meeting as such and a notice convening a meeting to pass a special resolution as the case may be shall specify the intention to propose the resolution as such and shall include the text of the resolution.
- (ii) The accidental omission to give notice of a meeting, of a resolution to be moved at a meeting or to issue an invitation to appoint a proxy with a notice where required by the articles, to any person entitled to receive notice, or the non-receipt of notice of a meeting or of such a resolution or of an invitation to appoint a proxy by any such person, shall not invalidate the proceedings at that meeting.
- (iii) No business shall be transacted at any general meeting unless a quorum is present. Except as provided in the articles, two shareholders present in person or by proxy and entitled to vote shall be a quorum. If within five minutes (or such longer time as the chairman of the meeting may decide) from the time appointed for the meeting a quorum is not present, the meeting, if convened by or upon the requisition of the members, shall be dissolved. In any other case it shall stand adjourned to such day, time and place as the chairman of the meeting shall appoint. If at such adjourned meeting a quorum is not present within five minutes from the time

appointed therefore, the member or members present in person or by proxy and entitled to vote shall have the power to decide all matters which could properly have been disposed of at the meeting from which the adjournment took place.

(i) Directors

- (i) The business of the company shall be managed by the directors, who, subject to the provisions of the articles and the Statutes and to such directions and may be given by the company in general meeting by special resolution, may exercise all powers of the company.
- (ii) The number of directors shall be not less than two and there shall be no maximum number of directors. A director shall not be required to hold any shares in the capital of the company and there shall be no age limit for directors. A director who is not a member shall nevertheless be entitled to receive notice or and attend and speak at all general meetings of the company and all separate general meetings of the holders of any class of shares in the capital of the company.
- (iii) No director shall be disqualified by his office from entering into any contract, arrangement, or transaction with the company either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the company or as a vendor, purchaser or otherwise. Subject to the provisions of the Statutes, no such contract, arrangement or transaction entered into by or on behalf of the company in which any director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the company for any profit or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, but such director shall declare the nature of his interest in accordance with the Statutes.
- (iv) Save as provided in the articles, a director shall not vote in respect of any contract, arrangement, or transaction whatsoever in which he has an interest which is to his knowledge a material interest otherwise than by virtue of interests in shares or debentures or other securities of or otherwise in or through the company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (v) A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
 - (A) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the company or any of its subsidiary undertakings;
 - (B) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the

giving of security;

- (C) any proposal concerning an offer of securities of or by the company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;
 - (D) any contract, arrangement or transaction concerning any other company in which he or any person connected with him (within the meaning of sections 252-255 of the Act) is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he or any person connected with him does not to his knowledge hold an interest (within the meaning of sections 820-825 of the Act) in one per cent or more of any class of the equity share capital of, or of the voting rights available to members of, the relevant company;
 - (E) any contract, arrangement or transaction for the benefit of employees of the company which does not accord him any privilege or benefit not generally accorded to the employees to whom the scheme relates; and
 - (F) any contract, arrangement or transaction concerning any insurance which the company is to purchase and/or maintain for, or for the benefit of, any directors or persons including directors.
- (vi) If any question shall arise at any meeting as to an interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the director concerned have not been fairly disclosed.
- (vii) Each director shall be paid out of the funds of the company by way of fees for his services as director such sum (if any) as the directors may from time to time determine not exceeding £20,000 per annum (or such larger amount as the company may by ordinary resolution determine). Any director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, shall be entitled to receive such remuneration (whether by way of salary, percentage of profits or otherwise) as the directors may determine. Each director may be paid his reasonable travelling, hotel and other expenses incurred in attending and returning from meetings of the directors, or any committee of the directors or of the company or of the holders of any class of shares or debentures of the company or otherwise in connection with the business of the company. The articles do not permit a director to vote on, or be counted in the quorum in relation to, any resolution of the board concerning his own appointment.
- (viii) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the

company or any company in which the company is interested, such proposals may be divided and considered in relation to each director separately and in such cases each of the directors concerned (if not debarred as provided in sub-paragraph (vii) above) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

- (ix) Each director shall have the power at any time to appoint as an alternate director either (1) another director or (2) any other person approved for that purpose by a resolution of the directors, and, at any time, to terminate such appointment.
- (x) Each director shall retire from office at the third annual general meeting after the annual general meeting at which he was last elected. A retiring director shall be eligible for re-election.
- (xi) Subject to the provisions of the Statutes, the directors may from time to time appoint one or more of their body to the office of managing director or to hold such other executive office as they may decide for such period and on such terms as they think fit, and, subject to the terms of any service contract entered into in any particular case and without prejudice to any claim for damages that any director may have for breach of any such service contract, may revoke such appointment. The salary or remuneration of any managing director or other such executive director shall, subject as provided in any contract, be such as the directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits.
- (xii) The directors may entrust to and confer upon a managing director or any other executive director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.
- (xiii) Without prejudice to the provisions of the articles, the directors may exercise all the powers of the company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers, employees or auditors of the company, or of any other body (whether or not incorporated) which is or was its parent undertaking or subsidiary undertaking or another subsidiary undertaking of any such parent undertaking (together "group companies") or otherwise associated with the company or any group company or in which the company or any such other group company has any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, or who are or were at any time trustees of, or directors of trustees of, any pension, superannuation or similar fund, employees' trust or scheme or any employees' share scheme or other scheme or arrangement in which any of the company or any such other body are interested, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liability suffered or incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their

powers and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the company or any such other body, fund, trust, scheme or arrangement.

(xiv) The directors may exercise all the powers of the company to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits to, *inter alia*, any directors, ex-directors, employees or ex-employees of the company or of any subsidiary undertaking or parent undertaking of the company or to the wives, widows, children, other relations and dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of any such persons.

(j) Non-United Kingdom shareholders

There are no limitations in the articles on the rights of non-United Kingdom shareholders to hold, or to exercise voting rights attached to, the ordinary shares. However, non-United Kingdom shareholders are not entitled to receive notices unless they have given an address in the United Kingdom to which such notices may be sent.

5. Subsidiaries

Principal subsidiaries

The significant subsidiaries of the company are listed below:

Subsidiary	Activity	Percentage ownership
KCC Resources Limited (England and Wales)	Sub holding company	100
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	95
PT Kartanegara Kumalasakti (Indonesia)	Plantation agriculture	95
PT KCC Mining Services (Indonesia)	Coal mining	95
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	95
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	95
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	95
REA Finance B.V. (Netherlands)	Group finance	100
R.E.A. Services Limited (England and Wales)	Group services	100

KCC

The percentage ownership of KCC detailed above refers to issued KCC ordinary shares. KCC also has outstanding 150,000 KCC participating preference shares which are owned by external investors and which were issued in February 2010 in conjunction with \$15 million nominal of dollar notes (the "coal bonds").

The KCC participating preference shares provide a limited interest in the relevant coal operations such that if those operations achieve an average annual level of earnings before interest, tax, depreciation and amortisation of \$8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to \$36 million for the full period), the combined return

to persons who subscribed the coal bonds and KCC participating preference shares and who retain their coal bonds and shares until redeemed will be 15 per cent per annum. If the required level of earnings is not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the coal operations or a change in control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 those shares will be converted into valueless deferred shares.

The KCC participating preference shares do not carry the right to attend or vote at general meetings of KCC.

Principal undertakings

The principal undertakings of the group are the East Kalimantan operations owned by the company's subsidiaries, REA Kaltim and SYB. The group's financial position and profitability is materially dependent upon those undertakings.

6. **Principal investments**

Other than capital expenditure on the development of the group's agricultural operations and establishment of the group's coal operations as described under Part IV (Business information) above, no significant investments were made by the group during the three years ended 31 December 2009 or put in hand during the period from 1 January 2010 to the date of this document. Save for capital expenditure in the further development of the group's agricultural and coal operations, the management of the group has made no firm commitments in respect of any future investment.

7. **Significant shareholders**

Notifiable interests

So far as the company is aware, as at 4 October 2010 (being the latest practicable date prior to the date of this document), the following persons (other than the directors) had notifiable interests in the issued share capital of the company:

	Number of ordinary shares	Percentage of ordinary share capital
Emba	9,957,500	29.8
Alcatel Bell Pensioenfonds VZW	4,007,049	11.99
Prudential plc group of companies	4,760,229	14.24
Artemis UK Smaller Companies Fund	1,919,400	5.74

In addition, the company has been notified that the above interest of Prudential plc group of companies includes 4,030,792 ordinary shares (12.06 per cent) in which M&G Investment Funds 3, an Open Ended Investment Company, is interested.

None of the major shareholders of the company listed above has different voting rights from any other holder of ordinary shares in respect of any ordinary shares held by it.

Controlling shareholdings

In so far as is known to the company:

- (a) no person exercises, directly or indirectly, jointly or severally, control over the company; and
- (b) there are no arrangements the operation of which may at a subsequent date result in a change of control of the company.

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.

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.

8. **United Kingdom taxation**

General

The following paragraphs are intended only as a general guide to current UK tax legislation and to what is understood to be the current practice of Her Majesty's Revenue and Customs ("HMRC"). They may not apply to certain categories of holders of shares, such as dealers in securities. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

Taxation of dividends

The company will not be required to withhold tax at source on any dividends it pays to its shareholders. As respects shareholders:

- (a) UK resident shareholders

Non-corporate shareholders resident in the UK who receive a dividend paid by the company should generally be entitled to a tax credit in respect of the dividend which they may offset against their total income tax liability. The rate of the tax credit is equal to 10 per cent of the sum of the dividend and the tax credit. Basic rate taxpayers should be subject to tax on the sum of the dividend plus the tax credit at the dividend lower rate which is currently 10 per cent. Accordingly, basic rate taxpayers should have no further liability to tax on dividends received. Higher rate tax payers should be liable to tax on the sum of the dividend plus the tax credit at the dividend upper rate (currently 32.5 per cent) against which liability they can offset the 10 per cent tax credit resulting in an effective rate of 25 per cent of the net dividend received. Taxpayers liable to the additional rate on incomes above £150,000 should be liable to tax on the sum of the dividend plus the tax credit at the dividend additional rate (currently 42.5 per cent) against which liability they can offset the 10 per cent credit resulting in an effective rate of 36.11 per cent of the net dividend received.

No repayment of the tax credit in respect of dividends paid by the company (including in respect of any dividend paid where the shares are held in a personal equity plan or in an individual savings account) can be claimed by a United Kingdom resident shareholder (including pension funds and charities).

Subject to certain exceptions for traders in securities and insurance companies, a corporate shareholder resident in the United Kingdom for tax purposes will generally not be subject to corporation tax or income tax on dividends received from the company.

(b) Non UK resident shareholders

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

Taxation of capital chargeable gains

(a) UK Resident shareholders

A disposal of new preference shares by a shareholder who is (at any time in the relevant United Kingdom tax year) resident or, in the case of an individual, ordinarily resident in the United Kingdom for tax purposes, may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the shareholder's circumstances and subject to any available exemption or relief.

(b) Non-resident shareholders

A shareholder who is not resident in the United Kingdom for tax purposes but who carries on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a non-UK resident corporate shareholder, a permanent establishment) to which the new preference shares are attributable will be subject to the same rules as those that apply to United Kingdom resident shareholders.

A shareholder who is an individual and who, after having acquired new preference shares, ceases to be resident or ordinarily resident for tax purposes in the United Kingdom for a period of less than five years of assessment and who disposes of new preference shares during that period may also be liable, on his return, to United Kingdom taxation of chargeable gains (subject to any available exemption or relief).

Stamp duty and stamp duty reserve tax ("SDRT")

The statements below summarise the current position and are intended as a general guide only to stamp duty and SDRT. Special rules apply to agreements made by broker dealers and market makers in the ordinary course of their business and to certain categories of person (such as depositories and clearance services) who may be liable to stamp duty or SDRT at a higher rate.

No stamp duty or SDRT will generally be payable on the issue of the new preference shares.

A transfer for value of new preference shares will generally be subject to stamp duty or SDRT. Stamp duty will arise on the execution of an instrument to transfer shares and SDRT will arise on the entry into an agreement to sell shares.

Stamp duty and SDRT are normally a liability of the purchaser or transferee (although where such purchase is effected through a stockbroker or other financial intermediary, that person should normally account for the liability to SDRT and should indicate this has been done in any contract note issued to a buyer).

The amount of stamp duty or SDRT payable on the transfer is generally calculated at the rate of 0.5 per cent. of the consideration paid (with stamp duty rounded up to the nearest £5). A liability to SDRT will be cancelled and any SDRT already paid will be repaid, generally with interest, where an instrument of transfer is executed and stamp duty is paid on that instrument within six years of the date on which the liability to SDRT arises.

Paperless transfers of new preference shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. SDRT on relevant transactions is generally settled within the CREST system. Deposits of shares into CREST will generally not be subject to SDRT, unless the transfer into CREST is itself for consideration.

9. **Material contracts**

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

- (a) a trust deed dated 12 September 2005 and made between (i) the company (as issuer) and (ii) The Law Debenture Trust Corporation plc (as trustee), as supplemented pursuant to a supplemental trust deed dated 10 February 2010, constituting \$45 million of 7.5 per cent dollar notes 2012/14 of the company; such dollar 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 dollar notes to be redeemed on any redemption date will be subject to reduction to the extent of dollar notes previously purchased and cancelled save in so far as such dollar notes were purchased and cancelled prior to a previous redemption date and taken into account in reducing the dollar note redemption requirement in relation to that previous redemption date);
- (b) a supplemental rights agreement dated 23 January 2006 and made between (i) Mr M E Zukerman and the Zukerman Family Trust (together with their permitted assignees, the "Zukerman dollar noteholders") being the holders of \$19 million nominal of dollar notes (the "Zukerman dollar notes") and (ii) the company pursuant to which it was agreed that:
 - (i) 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;
- (ii) 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;
 - (iii) 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 by such exercise be reduced in nominal amount to below 25 per cent of the nominal amount of the aggregate of all then outstanding dollar notes and any further notes constituted by deed supplemental to the trust deed summarised at sub-paragraph (a) above (the "trust deed") unless the entire outstanding holding of Zukerman dollar notes is to be acquired by the company; and
 - (iv) 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;
- (c) a master agreement (in the form of the International Swaps and Derivatives Association, Inc 2002 Master Agreement) dated 13 February 2007 and made between (i) Australia and New Zealand Banking Group Limited ("ANZ") and (ii) REA Kaltim together with:
- (i) a confirmatory letter dated 14 February 2007 from ANZ to REA Kaltim pursuant to which (A) ANZ agreed to pay to REA Kaltim (I) on 27 December 2015 (or, if either party should so elect, 10 February 2012) (the "termination date"), the sum of £22,000,000 and (II) semi-annually in arrear in each year up to and including the termination date, the sum of £1,145,683 and (B) REA Kaltim agreed to pay to ANZ (I) on the termination date, the sum of \$42,889,000 and (II) semi-annually in arrear in each year up to and including the termination date, interest on the sum of \$42,889,000 calculated at the rate of 10.568 per cent per annum; and
 - (ii) a confirmatory letter dated 1 October 2008 from ANZ to REA Kaltim pursuant to which (A) ANZ agreed to pay to REA Kaltim (I) on 27 December 2015 (or, if either party should so elect, 30 September 2013) (the "termination date"), the sum of £8,000,000 and (II) semi-annually in arrear in each year up to and including the termination date, interest on the sum of £8,000,000 calculated at the rate of 10.4153 per cent per annum and (B) REA Kaltim agreed to pay to ANZ (I) on the termination date, the sum of \$14,512,000 and (II) semi-

annually in arrear in each year up to and including the termination date, interest on the sum of \$14,512,000 calculated at the rate of 9.71 per cent per annum;

- (d) a facility agreement dated 23 April 2009 and made between (i) REA Kaltim as borrower, (ii) PT Bank Rabobank International Indonesia, PT ANZ Panin Bank and PT Bank CIMB Niaga Tbk as lenders, (iii) PT Bank Rabobank International Indonesia as Agent and Accounts Bank ("Agent") and (iv) Cooperatieve Centrale Raiffeisen Boerenleenbank B.A., as amended and restated on 9 July 2010 with effect from 23 April 2010, pursuant to which:
- (i) the lenders agreed to provide facilities comprising a working capital facility in the amount of \$4.75 million ("Facility 1") and a term loan facility in the amount of \$11.75 million ("Facility 2"), Facility 1 being fully drawn and Facility 2 being drawn-down in the amount of \$11,119,041.44 (with the balance no longer being available for draw down);
 - (ii) REA Kaltim agreed to pay interest on the aggregate amount of the facility drawn down (A) in the case of Facility 1, at a floating rate equal to 2.75 per cent per annum over the Singapore Inter Bank Offered Rate from time to time, plus a liquidity premium; (B) in the case of Facility 2, at a floating rate equal to 3.90 per cent per annum over the Singapore Inter Bank Offered Rate for PT ANZ Panin Bank's share, 2.75 per cent per annum over the Singapore Inter Bank Offered Rate for PT Bank CIMB Niaga Tbk's share, and 3.25 per cent per annum over the Singapore Inter Bank Offered Rate for PT Bank Rabobank International Indonesia's share, plus (in each case) a liquidity premium and commitment fees to the lenders on undrawn balances;
 - (iii) REA Kaltim agreed to repay Facility 2 in monthly instalments commencing May 2009 as follows: May 2009 to December 2009 – eight instalments of \$112,500, January 2010 to December 2010 – 12 instalments of \$125,000, January 2011 to December 2011 – 12 instalments of \$175,000, January 2012 to December 2012 – 12 instalments of \$225,000, January 2013 to December 2013 – 12 instalments of \$300,000, January 2014 to March 2014 – three instalments of \$316,666.67 (or, if earlier, following demand from the Agent in the event of an event of default) and to repay each advance drawn-down under Facility 1 (together with any interest) in full on the maturity date for Facility 1, which is 12 months from 9 July 2010 (subject to any extension agreed between the parties);
 - (iv) 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
 - (v) REA Kaltim gave various representations, warranties and undertakings to the lenders, including certain financial covenants;
- (e) a trust deed dated 21 August 2008 and made between (i) REA Finance (as issuer), (ii) the company (as guarantor) and (iii) Capita Trust Company Limited (as trustee) constituting £28 million nominal of 9.5

per cent guaranteed sterling notes 2015/17 of REA Finance forming a single series with and ranking *pari passu* with and being fungible with the then existing £22 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance and amending and restating the original trust deed dated 1 December 2006 made between (i) REA Finance (as issuer), (ii) the company (as guarantor) and (iii) Capita Trust Company Limited (as trustee) (as previously amended); such sterling notes are obligations of REA Finance and 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 sterling notes to be redeemed on any redemption date will be subject to reduction to the extent of sterling notes previously purchased and cancelled save in so far as such sterling 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 sterling notes are unconditionally and irrevocably guaranteed by the company and are secured principally on loans made by REA Finance to REA Kaltim and SYB;

- (f) a master agreement (in the form of the International Swaps and Derivatives Association, Inc 2002 Master Agreement) dated 20 October 2008 and made between (i) Australia and New Zealand Banking Group Limited ("ANZ") and (ii) SYB together with a confirmatory letter dated 26 November 2008 from ANZ to SYB pursuant to which (A) ANZ agreed to pay to SYB (I) on 27 December 2015 (or, if either party should so elect, on 24 October 2013, 24 October 2014 or 24 October 2015) (the "termination date"), the sum of £7,000,000 and (II) semi-annually in arrear in each year up to and including the termination date, interest on the sum of £7,000,000 calculated at the rate of 10.4153 per cent per annum and (B) SYB agreed to pay to ANZ (I) on the termination date, the sum of \$11,200,000 and (II) semi-annually in arrear in each year up to and including the termination date, interest on the sum of \$11,200,000 calculated at the rate of 10.33 per cent per annum;
- (g) a placing agreement made by way of letter dated 28 January 2010 from the company to Guy Butler pursuant to which:
- (i) Guy Butler, as agent of the company, procured placees to subscribe \$15 million nominal of dollar notes (the "additional dollar notes") for cash at a subscription price equal to 90 per cent of par plus an amount equal to the interest payable in respect of the additional dollar notes calculated by reference to the period from 1 January 2010 up to the date of allotment;
 - (ii) as a term of the issue of the additional dollar notes, each placee also subscribed, at par, one KCC participating preference share for every \$100 nominal of additional dollar notes subscribed;
 - (iii) the company granted to each placee a non assignable option to require the company to purchase, or to procure one or more purchasers to purchase, dollar notes owned by the placee at a price equal to par plus accrued but unpaid interest as follows:
 - (A) if the KCC participating preference shares should become redeemable or KCC should elect to redeem the same or if a valid resolution is passed for the winding up of KCC or an order is validly made by a court of competent jurisdiction

that KCC be wound up, in any such case on or prior to 31 December 2013, then in any such event (each such event being a "Put Event") the placee may require the company to purchase, or to procure one or more purchasers to purchase, on the 31 December following the relevant Put Event (or, if the Put Event occurs on a 31 December, on that 31 December) (or, in either case, if later, within seven days of receipt by the company of the relevant notice exercising the option), all or any of the dollar notes owned by the placee up to a maximum nominal amount equal to \$100N where "N" is the number of KCC participating preference shares owned by the relevant placee at the date of the relevant Put Event (such option being exercisable only once by each placee); and

(B) if the company purchases and cancels dollar notes such that the nominal amount of dollar notes due to be redeemed by the company on 31 December 2012 or 31 December 2013 is reduced (in accordance with the provisions of condition 5(A) of the trust deed), then the placee may require the company to purchase, or to procure one or more purchasers to purchase, on 31 December 2012 and/or 31 December 2013 (as applicable) (or, if later, within seven days of receipt by the company of the relevant notice exercising the option), all or any of the dollar notes owned by the placee that would, but for such purchase and cancellation, have fallen to be redeemed on 31 December 2012 or 31 December 2013 (as applicable) up to a maximum nominal amount equal to:

$\$100N/3 - \Y

where:

"N" is the number of KCC participating preference shares owned by the relevant placee ; and

"Y" is the amount of a holding of \$100N/3 of dollar notes that the Issuer is obliged to redeem on 31 December 2012 or 31 December 2013 (as applicable) after taking into account any dollar notes previously purchased and cancelled by the Issuer

provided that the company shall only be obliged to purchase, or to procure one or more purchasers to purchase, dollar notes owned by a placee following an exercise by such placee of the put option against receipt by the company of such evidence as the company may reasonably require as to the number of KCC participating preference shares that the placee owns;

- (h) a deed poll dated 28 January 2010 executed by the company in favour of the holders from time to time of the KCC participating preference shares pursuant to which:
 - (i) the company granted to each holder from time to time of the KCC participating preference shares an option, exercisable in the event that KCC is prohibited by law from redeeming the KCC participating preference shares on the date upon which they would otherwise, in accordance with the articles of association of KCC, become due for redemption, to require the company to purchase, or to procure one or more purchasers to purchase, those of the affected KCC participating

preference shares held by such holder; the price payable for any KCC participating preference shares purchased pursuant to an exercise of such option will be an amount equal to the redemption price due; and

- (ii) the company guaranteed the due and punctual payment by KCC of the amount due, owing or payable by KCC to the holders from time to time of the KCC participating preference shares, in the event that a valid resolution is passed for the winding up of KCC or an order is validly made by a court of competent jurisdiction that KCC be wound up, in either case on or prior to 31 December 2014;
- (i) a facility agreement dated 27 July 2010 and made between (i) SYB as borrower and (ii) PT Bank DBS Indonesia ("DBS") as lender pursuant to which:
- (i) DBS agreed to provide facilities comprising an amortizing term loan facility in the amount of Rp 350 billion (the "ATLF") (currently drawn to the extent of Rp 54 billion) and an uncommitted revolving credit facility in the amount of \$1,000,000 (including sub-facilities in rupiah) (currently undrawn) (the "RCF");
 - (ii) under the ATLF, the term for each drawn-down is a maximum of eight years (comprising a four year grace period and a four year availability period), however, if by 31 December 2014 SYB, has not drawn-down the entire ATLF then DBS is no longer obligation to provide the ATLF to SYB, and under the RCF, the term for each draw-down is a maximum of two months;
 - (iii) SYB agreed to pay interest on the aggregate amount of the facility drawn-down (A) in the case of the ATLF, at a floating rate equal to 3.5 per cent per annum over the Jakarta Interbank Offer Rate ("JIBOR") from time to time plus a liquidity fee, a facility fee, an annual fee and a commitment fee on undrawn balances; (B) in the case of the RCF, at a floating rate equal to 3.0 per cent per annum over the Singapore Interbank Offer Rate from time to time (or in the case of the sub-facilities in rupiah, at a floating rate equal to 3.0 per cent per annum over the JIBOR from time to time) plus a liquidity premium, a facility fee and an annual fee;
 - (iv) the ATLF shall expire on the earlier of 31 December 2018 or eight years from the first draw-down date (unless terminated earlier) and the RCF shall expire on 27 July 2011 (unless terminated earlier);
 - (v) SYB agreed to repay the ATLF (together with any interest) in instalments following expiry of the four year grace period with the first repayment of principal falling due at the end of month 51 from the first draw-down date and the last repayment falling due at the end of month 96 from the first draw-down date (or, if earlier, following a demand from DBS on the occurrence of an event of default) and to repay each advance drawn-down under the RCF (together with interest) at the end of each draw-down period (as described in (ii) above) with all amounts due under the RCF (including interest) to be repaid in full no later than the due date as set out in (iv) above (or, if earlier, following demand from DBS to make immediate

repayment);

- (vi) SYB agreed to provide or procure the provision to DBS of security for the ATLF and RCF principally comprising charges over substantially the whole of the assets and undertaking of SYB and an unsecured guarantee from the company and REA Kaltim; and
 - (vii) SYB gave various representations, warranties and undertakings to DBS, including certain financial covenants; and
- (j) a placing agreement made by way of letter dated 5 October 2010 from the company to Guy Butler pursuant to which:
- (i) Guy Butler, as agent of the company, has agreed to use its reasonable endeavours to procure placees to subscribe up to 9,000,000 new preference shares for cash at a subscription price of 100p per share, such subscription being conditional upon the admission of the new preference shares placed to the standard listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective by not later than 9.30 am on 26 November 2010; and
 - (ii) the company agreed to pay Guy Butler a commission of 2.25 per cent of the aggregate subscription price for the shares placed (plus VAT as applicable) and to bear all expenses of and incidental to the placing.

10. **Miscellaneous** No significant change in financial or trading position

There has been no significant change in the financial or trading position of the group since 30 June 2010, being the date to which the latest unaudited interim financial information of the group was prepared.

Related party transactions

Save as disclosed in "Directors' remuneration" under Part VI (Directors, employees and corporate governance) above, in note 38 to the group's annual report and accounts and in note (xi) to the company's financial statements for the year ended 31 December 2009, in note 38 to the group's annual report and accounts and note (xi) to the company's financial statements for the year ended 31 December 2008 and in note 36 to the group's annual report and accounts and note (xi) to the company's financial statements for the year ended 31 December 2007 (each of which is incorporated into this document by reference), there have been no related party transactions entered into by the company or any member of the group during the 2007, 2008 and 2009 financial years or during the period from 31 December 2009 to the date of this document.

Legal and arbitration proceedings

Save for the appeals against the Indonesian tax assessments in respect of REA Kaltim's 2006 and 2008 profits referred to in the "2008" and "2010" sections of "Significant events" under "Operating and financial review" in Part V (Financial information) above, the group is not, and has not been involved in any legal, governmental or arbitration proceedings (including any proceedings which are pending or threatened of which the company is aware) which may have or have had in the twelve months preceding the date of this document a significant effect on the financial position or profitability of the

company and/or the group.

The disputed amounts the subject of the two tax appeals are Rp 37.8 billion (\$4.2 million) in respect of the 2006 appeal and Rp 102.6 billion (\$11.5 million) against which the group had, at 30 June 2010, made provision of, respectively, \$4.2 million and \$5.5 million. The disputed amounts have been paid in full pending the appeals. Any amounts recovered on appeal will be repaid with simple interest calculated at 2 per cent per month for a maximum of 24 months. Tax appeals in Indonesia first go to what is effectively an appeal section of the Indonesian tax authority and then, if the decision of the appeal section is not accepted, to the Indonesian tax court. The 2006 appeal was rejected by the appeal section of the Indonesian tax authority and is currently awaiting hearing by the Indonesian tax court. A decision may be expected within 18 months. The 2008 appeal has only recently been lodged. A decision on this appeal by the appeal section of the Indonesian tax authority may be expected within twelve months. If that decision is further appealed to the tax court, a decision on the further appeal may take two years.

Patents, licences, contracts and processes

The group's financing is materially dependent upon contracts governing existing banking arrangements and the dollar notes and the sterling notes (all as described under "Material contracts" above) but the business and profitability of the group are not otherwise materially dependent upon any patents or licences, industrial, financial or commercial contracts or new manufacturing processes.

Employee involvement in capital of the company

Other than as disclosed in "Long term incentive plans" under Part VI (Directors, employees and corporate governance) above, there are no arrangements for involving group employees in the capital of the company.

Capital under option

No capital of any member of the group is under option or agreed, conditionally or unconditionally, to be put under option.

Takeover offers

Within the period from 1 January 2009 to the date of this document, there has been no public takeover offer for the ordinary shares of the company.

Expenses

The costs and expenses of and incidental to the placing, including commissions payable in respect of the placing and the costs involved in the preparation and publication of this document, are estimated (on the assumption that all of the 9,000,000 new preference shares will be issued pursuant to the placing) to amount in total to £320,000.

Research and development

The group does not undertake significant research and development, did not operate research and development policies for the three years ended 31 December 2009 and did not incur significant expenditure on group sponsored research and development activities during those years.

Persons involved in the issue

No person involved in the proposed issue of new preference shares has an interest in the issue that is material to the issue.

Audited information

Save for the information incorporated by reference under the section of this document entitled "Information incorporated by reference" above, no information contained in this document has been audited.

Registrars

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

Third party information

Where information included in this document has been sourced from a third party, the source of such information has been identified and the information has been accurately reproduced. So far as the company is aware and has been able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

11. 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 new preference shares remain capable of issue pursuant to this document:

- (a) the memorandum and articles of association of the company;
- (b) the annual reports of the company for the three years ended 31 December 2009; and
- (c) the half yearly financial report for the six months ended 30 June 2010.

Definitions

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

"Act"	the Companies Act 2006 (as amended)
"admission"	the admission of the new preference shares (i) to the standard listing segment of the Official List and (ii) to trading on London Stock Exchange's main market for listed securities becoming effective in accordance, respectively, with the Listing Rules and the Admission and Disclosure Standards
"articles"	the articles of association of the company
"board"	the board of directors of the company
"Capita Registrars"	a trading division of Capita Registrars Limited
"Combined Code"	the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008
"company"	R.E.A. Holdings plc
"CPKO"	crude palm kernel oil
"CPO"	crude palm oil
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo Limited is the operator
"directors"	the directors of the company
"dollar notes"	the 7.5 per cent dollar notes 2012/14 of the company constituted by a trust deed dated 12 September 2005 (as amended) made between the company (as issuer) and The Law Debenture Trust Corporation p.l.c. (as trustee)
"East Kalimantan"	the province of East Kalimantan in Indonesia (being part of the Island of Borneo) where the group's agricultural and coal operations are located
"Emba"	Emba Holdings Limited, a substantial shareholder in the company
"FFB"	oil palm fresh fruit bunches

"FSA"	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000
"group"	the company and its subsidiaries
"Guy Butler"	Guy Butler Limited of 21 Great Winchester Street, London EC2N 2JA
"IFRS"	International Financial Reporting Standards
"KCC"	KCC Resources Limited, the wholly owned subsidiary of the company that acts as a sub-holding company for the group's coal operations, incorporated in England and Wales
"KCCMSI"	PT KCC Mining Services Indonesia, a subsidiary of the company incorporated in the Republic of Indonesia
"KCC participating preference shares"	redeemable participating preference shares of \$10 each in the capital of KCC having the rights and being subject to the restrictions summarised in "Subsidiaries" under Part VII (Additional information) above
"Listing Rules"	the Listing Rules of the FSA
"London Stock Exchange"	London Stock Exchange plc
"new preference shares"	up to 9,000,000 new preference shares proposed to be issued under the proposed issue
"Official List"	the list maintained by the FSA 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
"placing"	the placing of up to 9,000,000 new preference shares by Guy Butler at a subscription price of 100p per share
"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 9,000,000 new preference shares as described in this document

"Prospectus Rules"	the Prospectus Rules of the FSA
"REA Finance"	REA Finance B.V., a wholly owned subsidiary of the company incorporated in the Netherlands
"REA Kaltim"	P.T. REA Kaltim Plantations, the principal operating subsidiary of the company, incorporated in the Republic of Indonesia
"REA Services"	R.E.A. Services Limited, a wholly owned subsidiary of the company incorporated in England and Wales
"Regulations"	the Uncertificated Securities Regulations 2001
"relevant coal operations"	KCC, KCCMSI and those companies incorporated in Indonesia that, as at 28 January 2010, were (or were proposed to be) engaged in coal mining and are funded by loans from KCC and (ii) any subsidiaries from time to time of any of such companies
"shareholders"	holders of ordinary shares and/or preference shares
"sterling notes"	the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. constituted by a trust deed dated 21 August 2008 made between REA Finance B.V (as issuer), the company (as guarantor) and Capita Trust Company Limited (as trustee)
"SYB"	PT Sasana Yudha Bhakti, a subsidiary of the company incorporated in the Republic of Indonesia
"United States" or "US"	the United States of America, its territories and possessions and all areas subject to its jurisdiction, the District of Columbia and any state of the United States of America

Currency

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

Information incorporated by reference

This document should be read and construed in conjunction with the following information in the annual report and accounts of the company for the three years ended 31 December 2009 and the half yearly report of the company for the period ended 30 June 2010:

- (a) (i) the auditor's report for the group on pages 56 to 57 of the 2007 annual report and accounts of the company (the "2007 Annual Report"), (ii) the group's consolidated financial statements (being the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement) on pages 58 to 61 of the 2007 Annual Report, (iii) the notes to the consolidated financial statements (including significant accounting policies) on pages 62 to 88 of the 2007 Annual Report, (iv) the directors' remuneration report for the group on pages 51 to 54 of the 2007 Annual Report, (v) the auditor's report for the company on pages 89 to 90 of the 2007 Annual Report, (vi) the financial statements for the company (being the company's balance sheet, movement in total shareholders' funds and statement of total recognised gains and losses) on pages 91 to 92 of the 2007 Annual Report and (vii) the notes to the company financial statements (including significant accounting policies) on pages 93 to 99 of the 2007 Annual Report;
- (b) (i) the auditor's report for the group on pages 64 to 65 of the 2008 annual report and accounts of the company (the "2008 Annual Report"), (ii) the group's consolidated financial statements (being the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement) on pages 66 to 69 of the 2008 Annual Report, (iii) the notes to the consolidated financial statements (including significant accounting policies) on pages 70 to 97 of the 2008 Annual Report, (iv) the directors' remuneration report for the group on pages 58 to 61 of the 2008 Annual Report, (v) the auditor's report for the company on pages 98 to 99 of the 2008 Annual Report, (vi) the financial statements of the company (being the company's balance sheet, movement in total shareholders' funds and statement of total recognised gains and losses) on pages 100 to 101 of the 2008 Annual Report and (vii) the notes to the company financial statements (including significant accounting policies) on pages 102 to 108 of the 2008 Annual Report;
- (c) (i) the auditor's report for the group on pages 73 to 74 of the 2009 annual report and accounts of the company (the "2009 Annual Report"), (ii) the group's consolidated financial statements (being the consolidated balance sheet, income statement, statement of comprehensive income, statement of

changes in equity and cash flow statement) on pages 75 to 78 of the 2009 Annual Report, (iii) the notes to the consolidated financial statements (including significant accounting policies) on pages 79 to 108 of the 2009 Annual Report, (iv) the directors' remuneration report for the group on pages 66 to 70 of the 2009 Annual Report, (v) the auditor's report for the company on pages 109 to 110 of the 2009 Annual Report, (vi) the financial statements for the company (being the company's balance sheet, movement in total shareholders' funds and statement of total recognised gains and losses) on pages 11 to 112 of the 2009 Annual Report and (vii) the notes to the company financial statements (including significant accounting policies) on pages 113 to 120 of the 2009 Annual Report; and

- (d) (i) the group's consolidated financial statements (being the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement) on pages 12 to 15 of the half yearly report of the company for the period ended 30 June 2010 (the "2010 Half Yearly Report") and (ii) the notes to the consolidated financial statements on pages 16 to 21 of the 2010 Half Yearly Report.

Such information shall be deemed to be incorporated in, and form part of this document, save that any statement contained in such information which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

During the life of this document, the above information will be available to be downloaded from the company's website: www.rea.co.uk and to be inspected, during normal business hours, at the London offices of the company's solicitors, Ashurst LLP, at Broadwalk House, 5 Appold Street, London EC2A 2HA.

Any information that is incorporated by reference into documents, which in turn are incorporated into this document, is not incorporated by reference into this document.

Placing statistics

Placing price	100p per share
Number of preference shares currently in issue	18,063,681
Number of new preference shares proposed to be issued pursuant to the placing	Up to 9,000,000
Number of preference shares expected to be in issue upon completion of the placing (assuming all of the new preference shares are issued)	27,063,681
Maximum gross proceeds of the placing	£9 million

Expected timetable for the placing

Issue and listing of new preference shares and commencement of dealings in the new preference shares	29 October 2010
CREST accounts credited in respect of the new preference shares	29 October 2010
Despatch of definitive certificates (where applicable) in respect of the new preference shares	12 November 2010

Dated: 5 October 2010