This document comprises a prospectus relating to R.E.A. Holdings plc in respect of up to 15,000,000 new 9 per cent cumulative preference shares of £1 each 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 section 1 (Directors) of Part VI 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 15,000,000 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 to be issued pursuant to the placing, it is expected that such admission will become effective and that dealings will commence on 19 July 2011.

R.E.A. Holdings plc

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

Proposed issue of up to 15,000,000 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 103p per share

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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.

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.

Contents

Part I Summary

1.	**General**	**The following summary information should be read as an introduction to 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.** **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 2010 amounted to some 32,000 hectares of which some 25,500 hectares were classified as mature at the start of 2011. The FFB crop harvested in 2010 amounted to some 519,000 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 15,000,000 new preference shares, such shares to be issued, to the extent that markets permit, pursuant to a placing at 103p 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 18 July 2011 and that dealings in the new preference shares issued pursuant to the placing will commence on 19 July 2011. The placing is conditional upon admission of the new preference shares to be 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.

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 six instalments over the period 31 December 2012 to 31 December 2017.

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 further step in this direction.

Reflecting the above, the entire 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 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, including as regards payment of the preferential dividend due for payment in respect of the six month period to 31 December 2011.

6. **Possible emigration to South East Asia**

In the group's 2010 annual report, the directors noted that they were considering whether the current ownership of the group's Indonesian businesses through a UK listed company continued to be the appropriate long term structure for the group or whether the group would be better restructured with a parent company listed in South East Asia.

The directors are now investigating the technical feasibility of such a restructuring ("emigration"). No decision to proceed with an emigration has yet been taken but, if it is felt desirable to proceed, the directors believe that a decision to do so should be taken expeditiously. They therefore intend to reach a decision on this matter within 2011. If the decision is to proceed, the directors expect that emigration would become effective in or about either June 2012 or June 2013.

In the event of emigration, the directors expect that the company would maintain the London listing of the preference shares until at least 90 per cent of the preference shares in issue at the date of the emigration have been exchanged for listed preference shares in the new South East Asian parent company or, if earlier, all of the outstanding sterling notes have been redeemed. The company itself would, and would procure that the new South East Asian parent company would also, give undertakings to provide appropriate protection of the rights of preference shareholders.

7. **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 and CPKO prices and, as respects the planned level of the extension planting programme, the group's ability to make land available for planting and to finance expansion at the rate that the programme will require;
- currency risks inherent in the fact that CPO, CPKO and coal are essentially dollar based commodities;
- 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.

8. **Summary historic financial information**

The following table provides summary financial information concerning the group for the three years ended 31 December 2010 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 2010. 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 2008 $'000	As at 31 December 2009 $'000	As at 31 December 2010 $'000
Summary of net assets			
Non-current assets	278,227	322,212	363,250
Current assets	51,983	49,766	79,378
Current liabilities	(24,200)	(24,161)	(30,260)
Non-current liabilities	(143,399)	(153,149)	(176,848)
	162,611	194,668	235,520

	Year to 31 December 2008 $'000	Year to 31 December 2009 $'000	Year to 31 December 2010 $'000
Summary of results (before taxation and minority interests)			
Revenue	79,630	78,885	114,039
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	45,700	41,290	58,394
Depreciation and amortisation	(2,477)	(3,337)	(3,715)
Change in fair value of biological assets	(2,660)	9,765	1,588
Operating profit	40,563	47,718	56,267
Investment revenues and finance costs	(4,254)	(6,001)	(5,820)
Profit before taxation and minority interests	36,309	41,717	50,447

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, perceived changes in the performance 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.

In the group's 2010 annual report, the directors noted that they were considering whether the current ownership of the group's Indonesian businesses through a UK listed company continued to be the appropriate long term structure for the group or whether the group would be better restructured with a parent company listed in South East Asia. As detailed in section 3 (Possible emigration to South East Asia) of Part III (Proposed issue) below, the company has provided undertakings to meet the possible concerns of subscribers of new preference shares as to the effect of such a restructuring for holders of the preference shares. Nevertheless, potential investors in new preference shares should be aware that an emigration could ultimately lead to their shares being exchanged for preference shares of a South East Asian incorporated and listed company or being acquired for cash albeit subject, in each case, to the protective terms of the undertakings that the company is providing.

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. In that event, harvesting may have to be suspended and crop may be lost.

Any loss of crop or reduction in the quality of harvest will reduce revenues and thus negatively impact cash flow and profitability.

Cultivation risk

As in any agricultural business, there is a risk that the group's estate operations may be affected by pests and diseases with a consequential negative impact on crops harvested. Agricultural best practice can to some extent mitigate this risk but it 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 with the financial consequences referred to under "Climatic factors" above. 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 transhipment 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 transhipment 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 crop loss through fire and other perils potentially affecting 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. These risks are mitigated to the extent reasonably feasible by management practices but an occurrence of an adverse uninsured event could result in the group sustaining material losses with a consequential negative impact on cash flows and profitability.

Produce prices

The profitability and cash flow of the group's agricultural operations depend both upon world prices of CPO and CPKO and upon the group's ability to sell these products 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.

Above average CPO and CPKO prices during 2007 and the early months of 2008 and again, more recently, in 2010 and 2011 to-date, have not lead to a re-imposition of export restrictions. Instead, the Indonesian government continues to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on CPO and CPKO exports. Furthermore, the starting point for this sliding scale is 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. Nevertheless there have been 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 from 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 continues its further extension planting of oil palm. The directors hope that unplanted land held by or allocated to the group (further details of which are given under "Land areas" in section 3 (Agricultural operations) in Part IV (Business information) below) 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 ranking capital (that is capital ranking in priority to the ordinary shares). 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 on the annual revaluation of the group's biological assets; the movements in this revaluation are included in 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.

An environmental impact assessment and master plan was constructed using independent environmental experts when the group first commenced agricultural operations in East Kalimantan and this plan is updated regularly with further advice from independent experts to reflect modern practice and to take account of changes in circumstances (including planned additions to the areas to be developed by the group). Substantial conservation reserves have been established in areas already developed by the group and further reserves will be added as new areas are developed. The group actively manages these reserves and endeavours to use them to conserve landscape level diversity.

The group is committed to sustainable oil palm development and adopts the measures described under "Sustainable practices" in section 3 (Agricultural operations) of Part IV (Business information) below to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports the principles and criteria established by RSPO and is at an advanced stage in obtaining RSPO accreditation.

<u>Local relations</u>

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.

The group's agricultural operations are established in a relatively remote and sparsely populated area which was for the most part unoccupied prior to the group's arrival. However, some areas of land were previously used by local villagers for the cultivation of crops. Accordingly, when seeking to take over such areas, the group negotiates with, and pays compensation to, the affected parties.

The negotiation of compensation payments can involve a considerable number of local individuals with differing views and this can cause difficulties in reaching agreement with all affected parties. There is also a risk that, after an agreement has been completed, a party to the agreement may become disaffected with the terms agreed or the manner in which the agreement has been implemented and may seek to repudiate the agreement. Such difficulties and risk have in the past caused, and are likely to continue periodically to cause, delays to the extension planting programme and other disruptions. The group has to-date been successful in managing such periodic delays and disruptions so that they have not, in overall terms, materially disrupted the group's extension planting programme or operations generally but there is a continuing risk that they could do so.

4. **Coal operations**

Operational risks

Coal 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. Heavy seas can cause delays to the barging of coal to its point of sale. Failure to achieve budgeted delivery volumes will increase unit costs and may result in operations becoming unprofitable. Whilst weather related impacts cannot be avoided, the group uses experienced contractors, supervises them closely and takes care to ensure that they have equipment of capacity appropriate for the planned delivery volumes.

Failure to load export shipments to an agreed schedule may result in demurrage claims which may be material. The group endeavours to minimise this risk by direct supervision of loading of large shipments and, where possible, by loading barges used for transferring coal from shore to ship ahead of arrival of ships.

Mining plans are based on geological assessments and the group seeks to ensure the accuracy of those assessments by extensive drilling ahead of any implementation of the plans. Nevertheless geological assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. In that event, unforeseen extraction complications can occur and may cause cost overruns and delays.

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.

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 sustain reputational damage as a result of 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 Rp 350 billion facility with DBS, are also dollar denominated and a significant proportion 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 given the contention of the Indonesian tax authorities (as referred to in the 2010 section of "Significant events" under "Operating and financial review" below) 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, CPKO and coal are made either against letters of credit or on the basis of cash against documents. However, domestic sales of CPO, CPKO and coal may require the group to provide some credit to buyers and purchasers of coal for trading may require the group to part pay ahead of delivery. The group seeks to limit the counterparty risk that such credit and prepayments entail 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 and mining concessions, 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 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.

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

The Bribery Act 2010 (the "Bribery Act"), comes into force on 1 July 2011. It applies worldwide and creates an offence of failure by a commercial organisation to prevent a bribe being paid on its behalf. It will be a defence if the organisation has "adequate procedures" in place to combat bribery (the full legal meaning of that phrase is yet to be established by the courts). The group has traditionally had strong controls in this area because the group operates predominantly in Indonesia which is classified as high risk by the International Transparency Corruption Perceptions Index 2010. To mitigate further the risk that this poses, and in anticipation of the Bribery Act coming into force, the group is reviewing its framework of controls to ensure that it complies with the provisions of the Bribery Act.

<u>Country exposure</u>

All of the group's operations are located in Indonesia. 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. However, during 2010 Indonesia remained stable and the Indonesian economy continued to grow.

Freedom to operate in a secure environment is critical to the group and the existence of security risks in Indonesia cannot be ignored. However, the group has always sought to mitigate those risks and has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by security problems.

Although there can be no certainty as to such matters, the directors are not aware of any circumstances which would lead them to believe that, under current political conditions, 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 successfully 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 15,000,000 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 103p per share, payable in full in cash on allotment.

The placing is conditional upon admission of the new preference shares to be issued pursuant to the placing. It is expected such admission will become effective on 19 July 2011.

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 18 July 2011 and that dealings in the new preference shares issued pursuant to the placing, for normal settlement, will commence on 19 July 2011.

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, including as regards payment of the preferential dividend due for payment in respect of the six month period to 31 December 2011.

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

3. **Possible emigration to South East Asia**

In the group's 2010 annual report, the directors noted that they were considering whether the current ownership of the group's Indonesian businesses through a UK listed company continued to be the appropriate long term structure for the group or whether the group would be better restructured with a parent company listed in South East Asia ("REA SEAsia").

The directors are now investigating the technical feasibility of emigration and seeking the views of the company's larger ordinary shareholders as to whether they would support such a move. No decision to proceed with emigration has yet been taken but, if it is felt desirable to proceed, the directors believe that a decision to do so should be taken expeditiously. The directors therefore intend to reach a decision on this matter within 2011. If the decision is to proceed, the directors would expect that the emigration would become effective in or about either June 2012 or June 2013 (depending upon the speed with which the necessary restructuring can be arranged and upon whether the new South East Asian listing for REA SEAsia is based upon the audited accounts of the company for 2011 or for 2012).

In the event of emigration, the directors expect that the company would maintain the London listing of the preference shares until at least 90 per cent of the preference shares in issue at the date of emigration have been exchanged for listed preference shares in REA SEAsia or, if earlier, all of the outstanding sterling notes have been redeemed (which, under normal circumstances, will not be until 31 December 2017).

Furthermore, to alleviate concerns that potential subscribers for the new preference shares may have as regards the implications of emigration for preference shareholders, the company undertakes that, in the event of emigration before 31 December 2017:

(i) the company would obtain undertakings from REA SEAsia that: (a) REA SEAsia will send to holders of preference shares, at the same time as it sends the same to its own ordinary shareholders, copies of all annual and interim financial reports issued by REA SEAsia; (b) REA SEAsia will endeavour to procure that the company will have sufficient funds, and distributable reserves, to meet the dividend obligations attaching to the preference shares; and (c) no dividends will be paid on the ordinary shares of REA SEAsia at any time when the dividend on the preference shares is in arrears);

(ii) the company would procure that, following emigration, holders of preference shares are offered one or more opportunities to exchange their preference shares for preference shares of REA SEAsia that have at least an equivalent value and will upon completion of such exchange be listed in South East Asia (most probably Singapore); and

(iii) the company would not seek, and would obtain an undertaking from REA SEAsia that the latter would not seek, to de-list the preference shares from the Official List or to cause the company to be wound up unless either:

    (a) the holders of 90 per cent of preference shares in issue at the date of emigration have exchanged their preference shares for preference shares of REA SEAsia pursuant to one or more of the opportunities referred to in paragraph (ii) above and, thereafter, holders of the remaining issued preference shares have been offered one final opportunity to exchange their shares for preference shares in REA SEAsia on the basis detailed in paragraph (ii) above; or

    (b) within the three months immediately preceding the date of the proposed de-listing or winding up, REA SEAsia has offered to buy the then remaining issued preference shares for cash at a price equal to the then higher of (I) par and (II) the prevailing yield based market value of the preference shares (as defined below), together in each case with the dividend accruing on the preference shares up to the date of their purchase by REA SEAsia.

For the above purposes:

"at least an equivalent value", as used in paragraph (ii) above, means that the preference shares of REA SEAsia for which it is proposed that any given existing holding of preference shares of the company be exchanged will have a market value of not less than the market value of that existing holding on the reference date or, if REA SEAsia does not yet have listed preference shares, such price as would, in the opinion of an independent financial adviser appointed by the company, have reasonably been expected to be the market price of such shares at that date had they existed;

"prevailing yield based market value", as used in paragraph (iii)(b) above, means the price per preference share, expressed in pounds sterling and rounded to three decimal places (with 0.0005 being rounded upwards), at which the percentage yield on the share is equal to 4.7 per cent above the redemption yield on the benchmark gilt (as defined below) (determined by reference to the middle market price of the benchmark gilt at the close of business in London on the reference date (as defined below), as shown by the Stock Exchange Daily Official List) such percentage yield on the share being calculated as 9 per cent multiplied by £1 and divided by the applicable price and such redemption yield on the benchmark gilt being calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Volume 105, part 1, 1978, page 18;

"benchmark gilt" means the 4.25 per cent Treasury Stock 2049 or, if such stock shall have ceased to be traded on the London Stock Exchange, such other government stock as can, in the opinion of an independent financial adviser appointed by the company, reasonably be taken in substitution; and

"reference date" means the date immediately preceding the second dealing day in London prior to the date of announcement of any exchange opportunity as referred to in paragraph (ii) above or cash offer as referred to in sub-paragraph (iii)(b) above (as the context requires) that, in the former case, is a business day in London and, in the latter case, is a business day in both London and the city in which REA SEAsia is listed.

If the emigration proceeds, the company may, in due course, be wound up. On a winding up of the company, the then holders of the preference shares would be entitled to receive, after the payment of all creditors but before any return to the holder(s) of ordinary shares of the company, the par value of the preference shares held by them together with a sum equal to any accumulated entitlements and arrears of the fixed dividend thereon to be calculated down to the date of the commencement of the winding up.

4. **ISIN** The International Security Identification Number assigned to the preference shares, including the new preference shares to be issued pursuant to the placing, is GB0007185639.

5. **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, being the issued ordinary and preference shares, represents permanent capital since 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 six instalments over the period 31 December 2012 to 31 December 2017.

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 issue of 9,000,000 preference shares for cash in October 2010 was made with this intention and the issue of new preference shares now proposed is viewed by the directors as a further step in this direction.

6. **Use of proceeds**

If the placing results in the issue of all of the 15,000,000 new preference shares comprised in the proposed issue, the gross proceeds will amount to £15.45 million providing net proceeds, after deduction of the estimated expenses of the placing, of £15 million.

In pursuance of their policy of refinancing maturing debt as explained in more detail under "Reasons for the proposed issue" above, the directors intend that the entire 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).

The net cash proceeds of the October 2010 preference share issue by the company (£8.7 million) were also intended to be utilised in reducing debt and some $7.5 million (£4.7 million) of such net cash proceeds have been so applied to-date. Such monies were expended as to $6 million in reducing indebtedness owed to the consortium of Indonesian banks referred to at material contract (e) in Part VII (Additional information) below and as to a further $1.5 million in purchasing KCC participating preference shares (which are treated as debt) as further detailed under section 5 (Subsidiaries) in Part VII (Additional information) below. Accordingly, the balance of such net cash proceeds, together with the entire net cash proceeds of the issue of new preference shares now proposed, will provide the company with a total of some £19 million ($30 million) to be deployed in making further debt reductions.

The directors have not pre-determined the manner in which such further debt reductions should be allocated between the different categories of group debt but intend that the allocation should be made as best benefits the group having regard to the magnitude and pricing of dollar and sterling notes that become available for repurchase and to the terms that can be negotiated for reduction of cash flow hedge liabilities. Moreover, the reductions may have to be effected over a period to ensure that, where debt and engagements are to be purchased or repaid early by agreement, the terms of purchase or repayment are reasonable for the group. The directors recognise that some penalties for early repayment of debt may be unavoidable but will seek to ensure that such penalties better benefit the group than the alternative of retaining cash on deposit to meet repayments of debt at normal maturities.

Without prejudice to the comments in the preceding paragraph, the directors' current expectation is that debt reductions will be effected as follows:

- as to not less than $10 million in repurchasing dollar notes by a combination of market purchases and partial exercise of the company's right to purchase at par up to $19 million nominal of the dollar notes held by Mr M E Zukerman and associates (as described in more detail at material contract (b) of Part VII (Additional information) below);
- as to $4 million in meeting the further repayments of term bank indebtedness owed to the Indonesian bank consortium referred to above that, under the terms of that indebtedness, fall due for repayment over the period from the date of this document to 31 December 2012; and
- as to the balance of up to $16 million in repurchasing sterling notes and reducing the group's liabilities in respect of the cash flow hedges in respect of those notes (the amount of which hedges stood at $17.7 million at 31 December 2010).

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

7. **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. Preference shares may be held 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.

8. **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/its own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to the purchase of new preference shares.

9. **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 the 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.

With the East Kalimantan agricultural operations well 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 in the process of establishing an open cast coal mining and coal trading business based on those concessions.

The group sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a company listed on a stock exchange of international standing 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, of which the total assets at 31 December 2010 represented some 95 per cent of the group's total assets and which, in 2010, 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 will, if successful, 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 the development of the existing 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, PT Kartanegara Kumalasakti, PT Kutai Mitra Sejahtera, PT Putra Bongan Jaya and PT Sasana Yudha Bhakti. 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 an allocation of Indonesian state land by the Indonesian local authority responsible for administering the land area to which the allocation relates (an "izin locasi"). Allocations are normally valid for periods of between one and three years but may be extended if steps have been taken to obtain full titles.

After a land allocation has been obtained (either by direct grant from the applicable local authority or by acquisition from the original recipient of the allocation or a previous assignee), the progression to full title involves environmental and other assessments to delineate those areas within an 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 titling process is then completed by a cadastral survey by the Indonesian land registry (during which boundary markers are inserted) and the issue of a formal registered land title certificate (an "hak guna usaha" or "HGU" certificate). Once full title has been obtained, central government and local authority permits are required for development of the titled area. These permits are often issued in stages.

In the group's experience, the land titling and permit 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.

A particular complication since the end of 2009 has been a requirement to meet new Ministry of Forestry regulations. Initially, these required that any company proposing to clear land for plantation development first obtain a so-called timber cutting permit ("izin pemanfaatan kayu" or "IPK"). As pre-requisites to the issue of an IPK, the zoning of the land to be covered by the IPK had to be checked to confirm that it had been earmarked for plantation development and the land concerned then had to be surveyed by representatives of the Ministry of Forestry to establish the stand of commercial timber (if any). Earlier this year, the requirement to obtain an IPK was relaxed for land areas in respect of which HGU certificates have already been obtained (since HGU titles may only be issued in respect of land that has already been zoned for agricultural use and therefore should not contain material quantities of commercial timber). For such areas, the company has been advised that Ministry of Forestry regulations can now be met by obtaining a timber utilisation permit ("surat keterangan syah kayu bulat" or "SKSKB") the issue of which involves a shorter process than the issue of an IPK.

The overall area of fully titled agricultural land currently held by the group totals 70,584 hectares, comprising 30,106 hectares held by REA Kaltim, 11,771 hectares held by SYB, 11,602 hectares held by PBJ, 9,784 hectares held by CDM and 7,321 hectares held by KMS.

During 2010, KKS was successful in obtaining a renewed allocation of 15,100 hectares out of a total area of 20,000 hectares in respect of which its previous land allocation had expired (the balance of such land being subject to Ministry of Forestry licences for logging activities although those activities ceased many years ago). The renewed allocation is conditional upon completion of a planned rezoning of East Kalimantan which is slowly progressing through the governmental authorities who must approve it. As a result, the group currently holds land allocations still subject to titling totalling 24,055 hectares comprising 6,741 hectares in CDM, 15,100 hectares in KKS and 2,214 hectares in SYB.

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 will be set aside for conservation and a further proportion will be 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 hectarage 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 KKS and SYB areas 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 sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai district of East Kalimantan while the CDM and KMS areas are located in close proximity of each other in the East Kutai district of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas.

<u>Land development</u>

Areas planted and in the course of development as at 31 December 2010 amounted in total to 32,083 hectares. Of this total, mature plantings comprised 21,984 hectares. A further 3,450 hectares planted in 2007 came to maturity at the start of 2011.

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 development and necessary land clearing licences, and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. During 2010, progress of the group's plans for oil palm extension planting was seriously delayed by hold ups in the issue of necessary permits and, in particular, of the IPKs that were at that time required. As a result, the aggregate area planted or under development increased over 2010 by only some 1,000 hectares, all of which related to areas that were exempted from the IPK requirement having been already under development when the new Ministry of Forestry regulations that gave rise to the IPK requirement were introduced.

The group secured its first IPK in January 2011 and a further IPK in March. With the recent relaxation of the IPK requirement in relation to land with HGU titles, it is hoped that compliance with Ministry of Forestry regulations will in future be less of a delaying factor in new land development that it has been in the recent past. The group therefore retains its oil palm planting target for the two year period ending 31 December 2011 of 8,000 hectares in total. However, given the delays to planting that have been experienced since 1 January 2010, logistical constraints may now mean that completion of the targeted 8,000 hectares will run over into the early months of 2012. Furthermore, achievement of this extended timetable will still be critically dependent upon land becoming available for development as needed.

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.

A major overhaul of the older mill was initiated during 2010. The overhaul involves the upgrading of mill machinery and the installation of a new boiler. This should restore the effective mill capacity to 80 tonnes per hour. The overhaul is currently on schedule and should be completed before the start of the 2011 peak cropping period in September. Meanwhile, the group's newer oil mill was expanded during 2010 to increase its capacity to 80 tonnes per hour.

The upgrading of the older mill and expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2011 but, by 2012, the group will require a third mill. Work is already in hand on the construction of this third mill and it is expected that mill commissioning will be completed ahead of the peak cropping months of 2012.

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 in 2012 and the third mill now under construction will therefore incorporate its own kernel crushing plant.

The group maintains 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 transhipment terminal owned by the group downstream of the port of Samarinda. The fleet comprises one larger barge of 4,000 tonnes, 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 transhipment terminal for collection from that terminal by buyers or for transfer to the larger barge. The latter is then used for sea voyages to make deliveries to customers in other parts of Indonesia and in Malaysia.

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 transhipment 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 transhipping there rather than in Samarinda. Access to larger vessels would permit the group to ship palm products to Europe when differentials between European and South East Asian prices for CPO and CPKO make it worthwhile to do so. 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. The group is also seeking (by obtaining licences to use third party owned roads) to establish alternative routes for the transfer of palm products to the downstream loading point during drier periods to ensure that, as volumes increase, the group can continue during such periods promptly to evacuate all palm product output.

Crops and extraction rates

FFB production has increased over the past five years from 332,704 tonnes in 2006 to 518,742 tonnes in 2010. Extraction rates achieved in 2010 were 23.62 per cent for CPO, 4.57 per cent for palm kernels and 40.07 per cent for CPKO.

Markets

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 4.1 per cent to 169.5 million tonnes in the year ended 30 September 2010. The increased consumption was reflected in increased world production during the same period of 168.8 million tonnes with CPO accounting for 46.7 million tonnes of this (27.6 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 to 31 December 2010 accounted for 12 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 vegetable oil and animal fat 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 one 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.

In recent years bio-fuel has become an important factor in the vegetable oil and animal fat markets, not so much because of the oils 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 has provided a floor for vegetable and animal oil and fat prices.

The directors believe that demand for, supply of and consequent pricing of, vegetable oils 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 2010, 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 $580 per tonne, CIF Rotterdam.

Sales

In 2010, approximately 37 per cent by volume of the group's CPO production was sold in the local Indonesian market and the balance of 63 per cent was exported. FOB prices realised for CPO in the local market during 2010 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.

With CPKO prices rising to an even greater extent than CPO prices during 2010, CPKO has become a more important second product for the group. To ensure that full value is captured, the group has expanded its CPKO customer base and has started selling CPKO for export as well as domestically. As a result, exports by volume represented 34 per cent of CPKO sales by volume in 2010 against nil in 2009.

Sales are made on contract terms that are comprehensive and 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 RSPO 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. The progressive nature of the duty means that, at prices between $900 and $1,250, the major proportion of the excess over $900 per tonne accrues to the Indonesian state rather than to CPO producers. 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 (and in this context it should be noted that if CPO prices were to rise significantly above $1,250 per tonne CIF Rotterdam, the current sliding scale of export duties could be extended). 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. Currently, the group has no outstanding forward fixed price sales.

The average US dollar prices per tonne realised by the group in respect of 2010 sales of CPO and CPKO, adjusted to FOB Samarinda, were, respectively, $779 (2009: $591) and $1,006 (2009: $579).

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 hectarage 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.

With inorganic fertiliser representing a major and increasing cost, the group has endeavoured in recent years to develop natural fertilisers. Two consequences have been the extensive planting of *macuna bracteata* as a cover crop in the oil palm areas and the composting of residues of the CPO production process. *Macuna bracteata* (of which the group was an early user in Indonesia) not only keeps down noxious weeds but is also a prolific generator of vegetative matter that acts as a natural fertiliser and soil improver, thereby promoting oil palm growth, particularly in the immature phase. Composting too produces substantial volumes of natural fertiliser by converting empty fruit bunches and oil mill effluent into a nutrient rich compost.

Composting is effected by delivering all empty fruit bunches and oil mill effluent (in the latter case after treatment in effluent ponds) to a composting contractor at sites adjacent to the group's oil mills. The contractor takes title to these residues and manages the composting process (this takes 45 days and involves seeding the residues with an accelerant of micro-organisms (which the contractor supplies), mixing the residues and macerating the mix to encourage biodegradation). The contractor then sells back the resultant compost to the group at an agreed price with a guaranteed nutrient content.

In the past, the fibrous residue from the milling of palm kernels (generally referred to as "expellate") was also used as a substitute for inorganic fertiliser but, with rising demand for this expellate for use in animal feeds, the sales value of the expellate currently exceeds its value as a fertiliser substitute. Accordingly, the group is now selling its palm kernel expellate.

During 2011, the group is aiming to make further cost savings from the recycling of waste by establishing two methane conversion plants. Each plant will be constructed adjacent to an existing oil mill and will be based around a lagoon covered with inflatable high density polyethylene sheeting. After initial cooling, mill effluent will pass to the lagoon which is designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process will be captured within the lagoon cover, passed through a biological scrubber and used to fuel one or more gas powered generators. Methane that is surplus to requirements for electricity generation will be flared off. The digested effluent will be discharged from the lagoon to the existing mill effluent ponds and subsequently passed to the composting process. The electricity generated from the captured methane will be supplied to a number of estate villages, thereby reducing materially the requirement for diesel generated electricity. It is expected that each lagoon will have a methane production capacity sufficient to generate about three megawatts of power.

Because the methane conversion plants will reduce the group's greenhouse gas emissions, the group expects to obtain carbon credits under the Clean Development Mechanism for the period from completion of the plants up to 2020. Taking these credits into account, the methane conversion plants are expected to generate acceptable investment returns and to reduce significantly the group's carbon footprint.

Investments made in 2009 in increased mechanical handling of FFB collection and transport and in establishing an "in house" road maintenance capability have proved successful and resulted in significant savings during 2010. Further economies are likely as staff become fully accustomed to the new arrangements and efficiencies are maximised.

Employees

The workforce in the group's agricultural operations currently numbers over 7,400.

The reorganisation of the human resources department that was initiated in 2009 is now nearing completion. Employment manuals have been overhauled, new defined indicators introduced for evaluating performance and positions re-graded so as to ensure that the group's remuneration in the ongoing is competitive and fair and appropriately reflects the grading of positions and industry benchmarks. Formal processes have been introduced for recruitment, particularly for key managerial positions. These changes are intended to ensure a more consistent approach to the management of human resources.

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 and shops. A full review of housing and related facilities is planned for 2011 to assess future housing requirements and investigate the scope for further enhancing workforce amenities. A trust funded by the group operates a network of primary schools and crèches across the group's estates and the group provides support 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 central hospital. It also has referral arrangements with larger hospitals in Samarinda and Jakarta. The estate 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. Future graduate recruitment may 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 and English language courses.

The group promotes a policy for the creation of equal and ethnically diverse employment opportunities and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management.

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 in a variety of ways and encourages joint social and cultural activities between its employees and local villagers. Formal liaison with the communities is conducted through a committee made up of representatives of the group and the communities. The committee meets regularly and provides a forum in which the concerns of any of the parties can be freely aired.

Responsibility for day to day dealings with the local communities is split between three departments: community development, smallholder and conservation. The activities of the smallholder and conservation departments are dealt with under "Smallholder programmes" and "Conservation" below. The community development department is primarily responsible for overseeing infrastructural assistance to, and supporting self-help projects within, the local communities. The department is overseen by the group's head of estates and is managed by three senior members of staff.

Infrastructural assistance provided to local villages to-date has included provision of generating sets, assistance with repairs of village roads, replacement of a village bridge and drilling of tube wells to provide drinking water. In addition, regular fogging for mosquitoes in the surrounding communities is helping to reduce the incidence of vector borne diseases in those communities. Self-help projects supported by the group are intended to promote economic development in the local communities by encouraging the communities to take advantage of the readily accessible local market for produce that the proximate group workforce provides. The community development department assists in the establishment of such projects by assisting with sale arrangements and providing financial and technical assistance. Projects undertaken to-date have included chicken, duck and pig rearing, fish farming, fruit, vegetable and rice cultivation and bee keeping. Such projects have hitherto, for the most part, been organised by small groups of individual villagers but the group now also encourages village cooperatives to undertake projects. This permits projects on a slightly larger scale and widens the opportunity for members of each village to participate in the projects.

In addition to the foregoing responsibilities, the community development department has a particular 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.

Smallholder programmes

The availability of the group's oil mills to process FFB harvested from plantings in the vicinity of the group's estates provides an opportunity for local communities to further their economic progress by developing smallholdings of oil palms in areas surrounding the group's estates. The group continues to support such development and has established its smallholder department as a dedicated department to manage that support.

Until 2009, the group's smallholder support was provided to individuals pursuant to a scheme known as "Program Pemberdayaan Masyarakyat Desa" ("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 2010, some 1,560 hectares of smallholder plantings across 14 local villages had been established following this model. In addition, the group now treats as if they were PPMD plantings a further 795 hectares of smallholder plantings originally developed under a government scheme for which the group has effectively assumed responsibility.

While continuing to support established smallholdings developed under the PPMD scheme, since 2009 the groups efforts to procure further smallholder development have been concentrated on encouraging the formation of local village cooperatives to develop oil palm on larger areas pursuant to what are known as "plasma schemes" (such terminology reflecting an analogy with elementary particle physics in which a company's estates represent a "nucleus" and the associated smallholders a "plasma" of linked particles). This shift in emphasis was prompted by a wish to accelerate the rate of smallholder development as it became progressively clearer that the logistical constraints of dealing with a large number of individuals, each operating on a relatively small area, would inevitably limit the rate at which the group could expand the smallholdings that it was supporting under the PPMD scheme.

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, with 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.

The area planted or under development on the group supported plasma schemes increased during 2010 from 1,578 hectares to 3,076 hectares. The areas developed to-date are owned by cooperatives with members from nine local villages. During 2011, it is planned to increase the number of villages participating in the schemes by adding further co-operatives. The plasma development programme for 2011 has been budgeted at 1,000 hectares.

It was originally planned that cooperative members would form the core labour force for the plasma scheme developments but would be supplemented when necessary by labour from the group's estates for which the group would render an appropriate charge. It has now become clear that, with urban migration reducing village numbers, the cooperative members available to work on the plasma schemes will be insufficient to provide more than a minor proportion of the workforce needed to maintain and harvest the scheme plantings.

Whilst this does not change the basic principle that the labour force for the scheme development will be made up of a combination of cooperative members and labour supplied under contract by the group, it does mean that the group must be in a position to supply contract labour in much greater numbers than was originally expected. The group is taking steps to expand estate village housing and facilities to permit recruitment of the additional permanent workers that it will in consequence need.

Financing for the group supported plasma schemes initiated to-date has been agreed with a local development bank in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. It is expected that the loans provided by the development bank will finance most of the initial development costs of the scheme but will be supplemented to the extent 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 will be mutually beneficial to the communities and the group. The communities will benefit from the economic development generated as a result of the plantings while the group will benefit from the additional throughput in its oil mills that will result from the processing of FFB from the plantings.

<u>Conservation</u>

The group plans the development of its agricultural operations on the basis of environmental impact assessments and advice provided by independent experts. Within the areas already developed, approximately 6,000 hectares have been left intact as conservation reserves with the aim of conserving flora and fauna and enhancing the biodiversity of the landscape. Areas identified as requiring conservation and set aside as part of the planning process for each new development area will be added to the conservation reserves as the group expands.

The group's conservation department (conducting its activities under the name "REA Kon") is responsible for implementing the group's conservation objectives. Led by an experienced local manager with a staff of eight and advised by an international conservation expert, the department has established a long term development plan for the period 2010 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 2010, REA Kon had confirmed the presence in the land reserves of a total of 42 species of mammals, 154 species of birds and 74 species of cold-blooded vertebrates (such as frogs, snakes and lizards). 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 120 species of fish and described over 10 previously unknown species. A total of 13 species of crustacean have been identified around the Belayan river including prawns found to be endemic to Kalimantan.

Camera trapping and walking surveys within the conservation reserves and adjacent estate areas have so far recorded a total 26 orang-utans of various ages. At least two baby orang-utans are known to have been born on the conservation reserves during 2009 and a further two in 2010. REA Kon is monitoring the health of the orang-utan population in the conservation reserves and will consider enrichment planting in the reserves if it appears that the naturally available food resources need to be enhanced although this has not, to-date, appeared necessary.

Quarterly monitoring of water quality in all rivers in the conservation reserves on the north of the Belayan was initiated during 2009 and this will be extended to the tributaries in the conservation reserves on the south bank during 2011. REA Kon has initiated a study of the contribution that forest predators can make to pest control within oil palm plantings. Pest levels on the group's estates are relatively low against industry norms and there is indirect evidence that pests are controlled by natural predators in forested conservation reserves.

REA Kon runs a programme of conservation education camps for children from both the group's primary school and local village schools. It has also established conservation for added value schemes with seedlings of rattan and fruit trees being provided to local villages for planting in, and at the periphery of, the group's conservation reserves. These schemes are intended to enhance sustainable use and deter destruction of areas by local slash and burn farming.

New initiatives undertaken by REA Kon during 2010 included the establishment of a model organic vegetable garden and a project to recycle plastic waste. As respects the latter, REA Kon is currently trialling a machine for shredding plastic bottles and producing plastic flakes for resale.

A charitable foundation, the Yayasan Ulin ("YU") or Ironwood Foundation, was set up by the group in 2009 to extend conservation activities into the wider Belayan river basin and beyond the immediate areas of the group's agricultural operations that are managed by REA Kon. YU works with non-governmental organisations, academic bodies, zoos and other third parties and focuses on promoting conservation in areas external to the group's plantations. Projects undertaken to-date include monitoring of water levels and a tag and release programme for endangered or threatened aquatic species caught by traditional fishermen in the wetlands around the group's agricultural areas. YU is assisted by a board of respected international and local scientific advisers. In addition to the group, donors to YU have to-date included a number of zoological and conservation organisations as well as private individuals.

<u>Sustainable practices</u>

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.

As noted under "Costs" above, processing waste is converted into compost which is applied in the oil palm areas. The area in respect of which compost substituted for inorganic fertiliser in 2010 amounted to 6,763 hectares and is projected to amount to over 9,000 hectares in 2011.

Handling arrangements are designed to ensure that no CPO, CPKO or effluent passes into water courses. Steps are being taken to educate the group's resident workforce and its dependants to segregate domestic waste so as to permit recycling of organic and, if the conservation department plastic recycling project referred to under "Conservation" above proves successful, also plastic waste.

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. Estate villages are therefore heavily dependent on diesel generated power and this, coupled with fuel used in vehicles, results in a currently estimated consumption of 45 litres of diesel oil and petrol per tonne of CPO produced. Power generation from the planned methane conversion plants referred to under "Costs" above should materially reduce this diesel consumption and should also substantially eliminate methane emissions from effluent ponds.

Accreditation

During 2010, REA Kaltim extended its ISO 14001 certification so as to cover all of its operations. ISO 14001 audits of the SYB estate units were conducted in February 2011 and ISO certification of SYB's operations has also now been obtained.

The group is a member of the RSPO which has produced a set of eight principles and 39 criteria for the sustainable production of palm oil. Members of RSPO are required, within a stipulated period after joining RSPO, to obtain accreditation that they comply with such principles and criteria. The directors believe that the group's operational practices have always been of a high standard but the accreditation process requires that such operational practices are embedded in formal systems and are subject to controls that are auditable. Measures to ensure that this was the case were completed during 2010. Audit of REA Kaltim and its associated smallholders for RSPO accreditation (conducted by an RSPO approved independent auditor) took place in early 2011 and has recommended that both REA Kaltim and its associated smallholders be granted accreditation. Audit of SYB for RSPO accreditation is planned for later in 2011.

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

4. **Coal operations**

Concessions and structure

The group holds rights in respect of three mining concessions in Indonesia. These comprise the Liburdinding and Muser concessions located together near Tanah Grogot in the southern part of East Kalimantan, which were acquired in the second half of 2008, and the Kota Bangun concession in the central part of East Kalimantan which was added in late 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.

In the past, 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 been advised that Indonesian law now allows this, subject to necessary Indonesian government approvals. Accordingly, the group intends to prepare applications for such approvals. 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 it is proposed that this 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 at the rate of 13 per cent in respect of Liburdinding coal, five per cent in respect of Muser coal and 13 per cent in respect of Kota Bangun coal. All three concession holding companies will be required to reconstitute the areas mined when coal extraction has been completed.

Pre-production geological surveys of the Liburdinding and Muser concessions 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 and between 6,000 and 7,000 kcal/kg ADB in the case of Muser. Inferred coal resources are estimated at 14.7 million tonnes for Liburdinding and 17.6 million tonnes for Muser. At the Kota Bangun concession, following commencement of commercial production, calorific values can be confirmed at between 6,800 and 7,800 kcal/kg ADB, while analysis of data from additional in-fill drilling and commercial operations supports an inferred coal resource estimate of at least 1.7 million tonnes. Economically mineable reserves at all three concessions are likely to be less, and perhaps significantly less, than the inferred resources. The group has concentrated its continuing geological exploration on proving its immediately mineable reserves and does not therefore yet have geological data sufficient to make an accurate determination of overall mineable reserves.

One of the coal mining concession holding companies has obtained a mining exploration licence in respect of an area near to the group's agricultural estates containing stone deposits. If geological surveys prove satisfactory, application will be made for the exploration licence to be converted into an exploitation licence. This will permit the company to establish a stone quarry and to sell crushed stone to the group's agricultural operations (which have a considerable need for crushed stone) and to third parties operating in the same vicinity.

Operating activities

The group's major concentration to-date in its embryonic coal mining activities has been on establishing a commercial level of production from the Kota Bangun concession. During 2010, land compensation was completed, mining and environmental management plans settled, necessary permits for mining operations obtained and arrangements for evacuating mined coal concluded. Pre-stripping and removal of overburden (being earth and rock overlaying the coal) started in November 2010 and the first coal seams were exposed earlier this year. Total coal mined up to the end of May 2011 was 18,681 tonnes with initial shipments of coal to sales' counterparties of 3,183 tonnes. The stripping ratio (being the amount of overburden required to be removed to gain access to the coal expressed as the number of bank cubic metres of overburden in situ to be removed to extract one tonne of coal) is, under the present mining plan, expected to be 30 to 1.

The group is aiming to build up to a production level within 2011 of some 16,000 tonnes per month. Arrangements have been agreed for the sale of current production from the Kota Bangun concession to two buyers with selling prices fixed against deliveries of the coal on a basis related to the Newcastle globalCoal index. The average price realised for the shipments to date was $141 per tonne. publicly

The group had planned to mine 150,000 tonnes at the Liburdinding concession during 2010 but this plan had to be abandoned when it became clear that the relatively high sulphur content of the coal was making it difficult to sell. Coal production at Liburdinding in 2010 therefore amounted to some 21,000 tonnes only. A market for some 3,000 to 4,000 tonnes of coal per month has been found in Java. However, for mining to be economic, Liburdinding needs to produce at a level of at least 15,000 tonnes per month. The group has looked at blending Liburdinding coal with low sulphur traded coal purchased from third parties and this remains an option. However, with the higher prices for coal that are currently prevailing, the group would prefer simply to sell the Liburdinding production without blending and to accept a discount for the sulphur content. Pending arrangements to sell Liburdinding coal on this basis, Liburdinding coal production has been put on hold.

Sales of traded coal in 2010 (which started in the second half of the year) totalled 71,000 tonnes. Since the start of 2011, the group has been able to establish trading relationships with two major export buyers and is aiming to be achieving monthly sales of 100,000 tonnes within the current year. The objectives for the coal trading activity are to augment the revenues from the mining of the Kota Bangun and Liburdinding concessions and to establish a customer base on which the group can build. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group intends that, in due course, it will enter into long term arrangements to procure a proportion of the coal that it trades by mining third party owned concessions against payment of a royalty.

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. This 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 defer taking any steps towards bringing the Muser concession into production until commercial levels of activity are being achieved by the rest of the group's coal operations.

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 implements plans to expand generating capacity to meet the growing demand for power within Indonesia.

The directors believe that the Newcastle globalCOAL weekly index, when adjusted for differences in calorific values (the index being based on coal of net calorific value of 6,000 kcal/kg), has over time provided a reasonable indicator of prevailing East Kalimantan coal prices. This index opened 2010 at $85 per tonne, rose to a temporary high of $109 at the end of April before falling back and trading generally in the $85 to $100 range for the following six months. It then rose sharply in the last two months of 2010 to close the year at $128. To date in 2011 it has traded in the range $115 to $140 per tonne. Although increased inflation in China bringing with it the possibility of higher Chinese interest rates may scale back Chinese growth in 2011, the current level of Asian coal demand is such that it seems likely that Indonesian coal prices will remain remunerative for much of 2011.

Unit costs of production within the coal operations will be critically dependent upon production volumes and efficiency of operation.

Sustainable practices

In developing its mining activities, the group remains committed to observing international standards of best environmental practice. Health and safety procedures have been established to protect and safeguard the welfare of all persons involved with the mining operations and measure are in place 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 five month period to the end May 2011 amounted to 244,202 tonnes. This exceeded the budgeted crop of 239,403 tonnes and was comfortably ahead of the crop for the corresponding period in 2010 of 207,481 tonnes. External purchases of FFB totalled 11,974 tonnes, slightly ahead of the budgeted 10,310 tonnes and well up on the corresponding figure for 2010 of 7,316 tonnes.

For the same period, processing of the group's own FFB production and the externally purchased FFB, together totalling 256,176 tonnes (2010: 214,796 tonnes), produced 57,726 tonnes of CPO (2010: 52,250 tonnes) and 11,397 tonnes of palm kernels (2010: 9,786 tonnes) reflecting extraction rates of 22.5 per cent for CPO (2010: 24.3 per cent) and 4.45 per cent for kernels (2010: 4.56 per cent). Production of CPKO amounted to 4,367 tonnes (2010: 3,910 tonnes) with an extraction rate of 39.6 per cent (2010: 39.9 per cent).

Rainfall for the five month period to end May 2011 averaged 1,815 millimetres across the group's operations. Although this was slightly below the rainfall of 2,015 millimetres received during the corresponding period of 2010, the rains of 2011 were distributed over a greater number of days than those of 2010. This resulted in more overcast conditions and the directors believe that these were the principal reason for the lower oil extraction rates in 2011 to-date than in 2010 since such conditions will have reduced solar radiation and thus palm photosynthesis. The latter is known to be an important component of oil formation in FFB.

During 2011, the CPO price has remained at levels comfortably in excess of $1,000 per tonne, CIF Rotterdam, and at times has traded at above $1,300 per tonne. It currently stands at $1,127 per tonne. The average price for the period 1 January to 31 May 2011 was $1,207 as compared with an average for the corresponding period in 2010 of $810. At these higher prices, the progressive nature of Indonesian duty levied on exports of CPO does however mean that the major proportion of any price in excess of $900 per tonne accrues to the Indonesian state rather than to CPO producers.

Whilst recent weeks have seen some reductions in the general level of commodity prices, within the vegetable oil complex prices have remained firm. Reports of good Indian oilseed crops and the possibility of measures to reduce inflation in China could have a negative effect on markets but weather conditions in a number of oilseed growing areas have been sub-optimal and bio-diesel usage remains buoyant. With CPO stocks still relatively low, CPO prices may reasonably be expected to remain at good levels throughout 2011 unless geo-political factors, such as the current unrest in the Middle East, materially disrupt the world economy.

The average selling price for the group's CPO for the five months to the end May 2011 on an FOB basis at the port of Samarinda and after payment of export duty was $891 per tonne (2010: $706 per tonne). The average selling price for the group's CPKO on the same basis was $1,522 per tonne (2010: $845 per tonne).

The group's costs are currently subject to many inflationary pressures. Fertiliser, diesel and steel prices all rose during 2010 and are continuing to rise. Higher Indonesian inflation coupled with a firm Indonesian rupiah is putting pressure on Indonesian labour costs in US dollar terms whilst the rapid expansion of the oil palm sector is increasing competition for senior staff and pushing up salary costs. The group will not be immune to these pressures but the impact on unit costs may be mitigated over time by increased cropping from newly mature areas.

The overhaul of the group's older oil mill and the construction of the new third oil mill and the two new methane conversion plants are proceeding as scheduled. Inflation in steel and other material costs coupled with the strengthening of the rupiah does, however, mean that the combined cost of the third mill, the second kernel crushing plant and the two methane conversion plants is now projected at some $37 million, to be expended over 2011 and 2012.

Agricultural development

All necessary Indonesian permits have now been received to start the development of a gross area of 7,321 hectares held by the company's subsidiary, KMS. Notice of the new development has been posted on the RSPO website and it is anticipated that land clearing will commence in early July.

Progress has also been made on the permits for development at the company's subsidiary, PBJ, which holds a further gross area of 11,602 hectares. It is hoped to start land clearing in this area in the third quarter of 2011.

Coal operations

In the coal mining operations, production levels at the Kota Bangun concession are being expanded towards the intended level of some 16,000 tonnes per month. Discussions with possible purchasers of the lower quality coal from the Liburdinding concession have started and, if brought to a successful conclusion will permit resumption of Liburdinding production.

Sales of traded coal to date have amounted to some 170,000 tonnes. The group remains on target to reach an average monthly level of traded coal sales of 100,000 tonnes during 2011. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group is in talks that may result in long term arrangements for the procurement of a proportion of traded coal by mining of third party owned concessions against payment of royalties.

Environmental and social responsibility

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

Outlook

The directors are cautiously optimistic as to the extent and speed to and at which the planned continued expansion of the group's oil palm hectarage can be delivered and are reluctant to assume the success of the group's new venture in coal before this has been proved by results. Nevertheless, they are encouraged that, in recent months, outstanding land issues have become more tractable and can see that, if successful, the new coal operations could represent a profitable diversification for the group. With CPO and CPKO looking set to remain at highly remunerative levels for a while longer, the directors believe that 2011 should be another good year for the group.

Part V Financial information

1. Historical financial information

Historical financial information concerning the group, covering the three years ended 31 December 2010 and incorporating the statutory accounts for those years, is set out in the annual reports of the company for the years 2008, 2009 and 2010. 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 2008, 2009 and 2010 that contain the auditor's reports, financial statements and accounting policies and notes to the financial statements for the three years ended 31 December 2010. 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 2010 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. Summary historic financial information

The following table provides summary financial information concerning the group for the three years ended 31 December 2010 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 2010 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 2008 $'000	As at 31 December 2009 $'000	As at 31 December 2010 $'000
Summary of net assets			
Non-current assets	278,227	322,212	363,250
Current assets	51,983	49,766	79,378
Current liabilities	(24,200)	(24,161)	(30,260)
Non-current liabilities	(143,399)	(153,149)	(176,848)
	162,611	194,668	235,520

	Year to 31 December 2008 $'000	Year to 31 December 2009 $'000	Year to 31 December 2010 $'000
Summary of results (before taxation and minority interests)			
Revenue	79,630	78,885	114,039
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	45,700	41,290	58,394
Depreciation and amortisation	(2,477)	(3,337)	(3,715)
Change in fair value of biological assets	(2,660)	9,765	1,588
Operating profit	40,563	47,718	56,267
Investment revenues and finance costs	(4,254)	(6,001)	(5,820)
Profit before taxation and minority interest	36,309	41,717	50,447

3. **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.

4. **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, for each of the three years ended 31 December 2010. The information included therein has been extracted without material adjustment from the annual reports of the company for those years.

Production and sales of coal during the two years ended 31 December 2009 were insignificant. In 2010, production was again not significant; sales, predominantly of traded coal, totalled just $4.2 million.

	Year to 31 December		
	2008	2009	2010
	Tonnes	Tonnes	Tonnes
FFB crop			
Group	450,906	490,178	518,742
External	6,460	13,248	20,089
	457,366	503,426	538,831
CPO	105,597	118,357	127,256
Palm kernel	20,846	23,740	24,614
	126,443	142,097	151,870
	$'m	$'m	$'m
Sales by destination			
Indonesia	45.8	40.7	47.0
Rest of Asia	33.3	38.2	66.8
Total sales	79.1	78.9	113.8

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 16,487 hectares in 2008 to 21,984 hectares in 2010 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 27.3 tonnes in 2008 to 23.6 tonnes in 2010. Increasing hectarages 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 and palm kernel extraction rates were reasonably consistent over the period with the former between 23.1 and 23.6 per cent and the latter between 4.6 and 4.7 per cent.

The trend in sales proceeds over the three years ended 31 December 2010 differed markedly from the 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 $990 per tonne, CIF Rotterdam, the CPO price rose rapidly during the early months of 2008 to a high of just under $1,400 per tonne in March 2008. It then declined sharply to a low of $435 per tonne in October 2008 before recovering progressively over the closing months of 2008 and then through 2009. The rise continued into 2010 and after opening the year at a little above $800 per tonne and remaining broadly at that level for the first six months of 2010, the price rose further in the third quarter of the year to $935 per tonne at the end of September 2010 and then again, and even more sharply, in the last quarter to close the year at $1,285 per tonne. The average prices for 2008, 2009 and 2010 were, respectively, $948, $683 and $903 per tonne.

Net sales proceeds receivable by the group were, however, affected by the impact of the duty payable on the export of CPO and CPKO from Indonesia. This duty is levied by the Indonesian government on a sliding scale under which the rate of duty payable rises from nil per cent on sales at prices 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. This meant that during the early months of 2008 and the second half of 2010, when prices rose to above $900 per tonne, CIF Rotterdam, the major proportion of the benefit of the increase in the price accrued to the Indonesian state rather than to the group. Moreover, during the six months ended 30 June 2008, the high prices had a negative impact on the group because the group was obliged during this period to deliver 12,000 tonnes of CPO against previous forward sales at a fixed price of $620 per tonne but had to pay export duty on these sales calculated by reference to the international prices for CPO that were then current.

As the above table shows, throughout the three years ended 31 December 2010, all sales of CPO and CPKO were made either locally in Indonesia or in other parts of Asia.

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 2010. The information included therein has been extracted without material adjustment from the annual reports of the company for those years.

	Year to 31 December		
	2008	2009	2010
	$'m	$'m	$'m
Earnings before interest, tax, depreciation, amortisation and movement on biological assets	45.7	41.3	58.4
Profit on ordinary activities before tax and minority interests	36.3	41.7	50.4

Earnings before interest, tax, depreciation, amortisation and movement on biological assets over the three years ended 31 December 2010 have not precisely followed the trend in sales revenues principally for two reasons. First, costs have risen faster than revenues, in part because of inflation in most operating input costs and in part because of higher unit costs of production reflecting the 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 debit to income of $4.2 million in 2008, a credit of $1.5 million in 2009 and a credit of $0.5 million in 2010.

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 loss of $2.7 million in 2008, a gain of $9.8 million in 2009 and a gain of $1.6 million in 2010. 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. The subsequent decision in 2009 to resume development had an opposite effect and accounted for the significant gain in that year.

Throughout the period from 31 December 2007 to 31 December 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 2007 and thereafter a discount rate of 16 per cent. The discount rate applied in the valuation of all other estate areas was 19 per cent at each year end, save that at 31 December 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 issued preference shares were paid as they fell due throughout the three years ended 31 December 2010.

Dividends per ordinary share were paid at rates totalling 3p and 4p in respect of, respectively, 2008 and 2009 and dividends totalling 5p have been paid to-date in respect of 2010. The directors had not intended to declare or recommend the payment of any further dividend in respect of 2010 but, following criticism by one corporate government agency that the practice that the directors have followed in recent years of declaring in respect of each year a first interim dividend followed by a second interim dividend in lieu of final deprives shareholders of the opportunity to vote on the level of overall dividend paid by the company in respect of each financial year, the directors have recommended that, notwithstanding that the second interim dividend that was paid in respect of 2010 was intended to be paid in lieu of a final, a final dividend in respect of 2010 of 3p per ordinary share should be paid in September 2011 but that this dividend should be in substitution for the interim dividend in respect of 2011 that the directors would otherwise have expected to declare for payment at that time.

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 two capitalisation issues of new preference shares to ordinary shareholders since 1 January 2008: 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 24 September 2010 on the basis of one new preference share for every 20 ordinary shares held.

The directors will consider a further such issue during 2011 if they feel that this is merited by the group's performance.

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 2008 to 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).

	At 31 December		
	2008	2009	2010
	$'m	$'m	$'m
Net debt and related engagements	77.9	82.5	95.3
Equity	162.6	194.7	235.5
	%	%	%
Ratio of net debt to equity	47.9	42.4	40.5

Movements in net debt over the period from 1 January 2008 to 31 December 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 that are noted under "significant events" below, the retention of profits and other amounts booked 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 2010 are set out below.

- 2008

  In August 2008, an additional £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). In September 2008, 1,302,954 9 per cent cumulative preference shares were issued 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 of the assessment are disputed and are currently awaiting decision by the Indonesian tax court.

- 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

  In February 2010, 840,689 new ordinary shares of the company were issued 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. In September 2010, 1,670,727 9 per cent cumulative preference shares were issued by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above. This was followed later in the same month by the issue of 9 million 9 per cent cumulative preference shares for cash at par to raise £8.7 million net of expenses.

  A provision of $5.5 million relating to tax connected with a cash flow hedge was charged to other comprehensive income for 2010. This provision relates to tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by the group to hedge, against US dollars, the group's liability in respect of the sterling notes. The group has been advised that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise but an Indonesian tax assessment received by REA Kaltim during 2010 denied the tax relief claimed by REA Kaltim for 2008 in relation to the swaps in question. The group is awaiting a hearing at the Indonesian tax court but, pending such hearing, provision has been made for approximately half of the tax relief claimed and the disputed Indonesian tax assessment has been settled in full.

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 2010 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 political and economic conditions in 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.

5. **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 audited consolidated balance sheet of the group as at 31 December 2010 (as published in the annual report of the company for the period ended 31 December 2010).

Capitalisation and indebtedness	$'000
Current debt	
Guaranteed	1,000
Secured*	6,850
Unguaranteed / unsecured	-
	7,850
Non current debt (excluding current portion of long term debt)	
Guaranteed	-
Secured*	67,869
Unguaranteed / unsecured	56,337
	124,206
Equity	
Share capital	60,548
Reserves	6,704
	67,252
Total	199,308

* *of which $13,469,000 was secured by charges over substantially the whole of the assets and undertaking of REA Kaltim, $6,006,000 was secured by charges over the land, plantations, property, plant and equipment owned by SYB and $55,244,000 was principally secured by pledges by REA Services over unsecured loans owed to it by REA Kaltim and SYB.*

Reserves at 31 December 2010 exclude group retained earnings of $166.228 million.

Since 31 December 2010, there has been no material change to the amounts included in the above statement.

Net financial indebtedness	$'000
Liquidity	
Cash	(36,710)
Cash equivalents	-
Trading securities	-
	(36,710)
Current financial receivable	-
Current financial debt	
Current bank debt	7,850
Current portion of non current debt	-
Other current financial debt	-
	7,850
Net current financial indebtedness	(28,860)
Non current financial indebtedness	
Non current bank loans	12,625
Bonds issued	98,513
Other non current indebtedness	13,068
	124,206
Net financial indebtedness	95,346

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 31 December 2010 amounted to Rp 43 billion ($4,759,000).

6. **Capital resources**

Recent cash flows

The following table provides a summary of the cash flows of the group for the year ended 31 December 2010 and has been extracted without material adjustment from the consolidated cash flow statement (and notes thereto) included in the annual report of the company for 2010.

	Year to 31 December 2010 $'000
Operating cash flows	59,420
Movements in working capital	(9,210)
Taxes paid	(21,134)
Interest paid	(7,784)
Net cash from operating activities	21,292
Investing activities	(41,391)
Financing activities	34,577
	14,478
Opening cash and cash equivalents	22,050
Effect of exchange rate changes	182
Closing cash and cash equivalents	36,710

Cash and cash equivalents increased over 2010 from $22.0 million to $36.7 million. The increase of $14.5 million (excluding a benefit of $0.2 million from the effect of exchange rate changes) represented that component of the cash inflow from operating activities that was left after funding the $20.1 million outflow on investing activities that was not covered by net cash from operating activities.

Investing activities for 2010 involved a net outflow of $41.4 million. This represented new investment totalling $43.8 million, offset by inflows from interest and other items of $2.4 million. The new investment comprised expenditure of $34.3 million on further development of the group's agricultural operations, of $3.5 million on land rights and titling and an aggregate of $6.0 million on the acquisition and development of coal concession rights and working capital for coal operations.

The net cash inflow on financing activities for 2010 of $34.6 million was made up of a net inflow from the issue of new shares and dollar notes of $29.5 million, net additions to bank debt and finance lease obligations of $10.2 million and outflows in respect of dividend payments and a restructuring of the security and guarantee arrangements in respect of the sterling notes of, respectively, $4.9 million and $0.2 million.

For the period from 1 January 2011 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 of $7.2 million has been applied in reducing indebtedness.

Current indebtedness and cash resources

Group indebtedness and related engagements at 31 December 2010 as detailed under "Capitalisation and indebtedness" above amounted to $132.1 million, made up of $45 million nominal of dollar notes (carrying value: $43.3 million), £37 million of sterling notes (carrying value: $55.2 million), $11.6 million in respect of the hedge of the principal amount of the sterling notes as described below, $1.5 million in respect of the KCC participating preference shares (which are classified as debt), term loans from Indonesian banks of $14.7 million and other short term indebtedness comprising drawings under working capital lines of $5.8 million. Following drawings under available facilities totalling $6.5 million as detailed below and debt repayments of $7.0 million, group indebtedness and related engagements now total (on the basis of exchange and interest swap rates prevailing at 31 December 2010) $131.6 million.

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

The sterling notes are issued by REA Finance, a wholly owned subsidiary of the company. Following a restructuring of the security and guarantee arrangements in respect of the sterling notes which was completed in November 2010, the notes are guaranteed by the company and REA Services. They are principally secured by pledges by REA Services over unsecured loans owed to it by REA Kaltim, SYB and CDM, and are repayable by three equal annual instalments commencing 31 December 2015.

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 on £22,000,000 nominal of the sterling notes only as respects interest payments falling due up to 31 December 2015).

The KCC participating preference shares provide a limited interest in the group's 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), those persons who subscribed dollar notes and KCC participating preference shares in the combined issue of those securities in February 2010, and who retain their notes and shares until redeemed, will receive an overall compound return of 15 per cent per annum on their total investment. 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 such shares will be converted into valueless deferred shares.

The term loans at 31 December 2010 from Indonesian banks comprised a US dollar denominated balance of $8.7 million owed by REA Kaltim to a consortium of Indonesian banks, as described in more detail at material contract (e) of Part VII (Additional information) below, and the equivalent of $6.0 million drawn by SYB from DBS under an Indonesian rupiah denominated amortising loan facility of Rp 350 billion ($38.9 million), agreed with DBS during 2010, as described in more detail at material contract (h) of Part VII (Additional information) below. The loans are secured on the assets of, respectively, REA Kaltim and SYB and are guaranteed by the company. The aggregate outstanding balance of the loans at 31 December 2010 of $14.7 million was repayable as follows: 2011: $2.1 million; 2012: $2.7 million; 2013: $3.6 million; and 2014 and thereafter: $6.3 million.

At 31 December 2010, the group held cash and cash equivalents of $36.7 million. In addition, the group had at 31 December 2010 an undrawn balance of Rp 296 billion ($32.9 million) under the SYB amortising loan facility with DBS (available for drawing until 31 December 2014) and working capital lines (subject to annual renewal) equivalent to $8.75 million of which $3 million was undrawn.

Since 31 December 2010, the group has agreed an additional $3 million working capital line (subject to annual renewal) and has reduced its borrowings under working capital lines by a net $3.22 million and its term loan borrowings from banks by $0.9 million. It has also drawn a further Rp 45 billion ($5 million) under the SYB amortising loan facility with DBS and has purchased 142,050 KCC participating preference shares representing a liability of $1.42 million at an aggregate cost of $1.57 million. Current cash and cash equivalents held by the group have increased by $2 million from those held at 31 December 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 2010, interest cover (being taken as the ratio of earnings before interest, tax, depreciation, amortisation and movement on biological assets to interest payable) was 4.8 for 2010. The ratios of net debt to equity for that year are detailed in "Financial condition" under "Operating and financial review" above.

Financing of planned development expenditure

Planned extension planting and the requirement for investment in estate buildings and other estate plant and equipment that follows any expansion of the group's planted hectarage will involve the group in continuing major capital expenditure for several years to come. 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 $7,000. In addition, construction of the group's third oil mill, the second kernel crushing plant and the two proposed methane conversion plants is likely to involve an outlay currently estimated at $37 million over 2011 and 2012. If CPO prices remain at good levels, the directors expect that such capital expenditure can be funded from internal cash flow possibly supplemented by some additional drawings on the SYB term loan facility with DBS.

Provided that the coal operations evolve as planned, such operations should become cash generative during 2011. If that proves the case, the cash generated may be utilised for further expansion of the operations. The directors do not anticipate that the operations will require material cash support from elsewhere in the group during 2011, although short term cash advances may be made to meet temporary spikes in the working capital needed for coal trading.

Whilst the group's extension planting programme can always be scaled back, once areas have been planted with oil palms, some or all of the benefits of the investment made in such areas will be lost if the areas are not maintained. Commodity markets are inherently volatile and the directors believe that it is prudent for the group to hold some cash cushion to ensure that when new areas are planted, those areas can be brought to maturity even if CPO and CPKO prices fall sharply. However, the cash and cash equivalents held by the group at 31 December 2010 was in excess of the amount required for that purpose because it reflected the proceeds of the issue of new preference shares made in October 2010. Some $7.2 million of such cash resources has already been applied during 2011 in retiring debt and the directors intend that further debt reductions should be made as explained under section 6 (Use of proceeds) in Part III (Proposed issue) 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 is met with borrowings and preference share capital, with the latter offering the company, and holders of ordinary shares, the particular advantage that it represents relatively low risk permanent 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.

New projects within the coal operations can be brought into commercial production more rapidly than new oil palm plantings and the coal operations can therefore justify borrowing on a shorter term basis than the agricultural operations. However, the directors believe that no operations of the group should allow themselves to become wholly reliant on bank finance. Accordingly, the directors intend that the coal operations should also be financed principally by issues of listed securities ranking ahead of the ordinary shares.

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. Specifically, the directors consider that it will be prudent, when market conditions permit, to retire existing shorter dated debt and to replace it with preference share capital or new debt of a longer tenor. The October 2010 issue of new preference shares was made with this intention and the proposed issue of new preference shares is viewed by the directors as a further step in this direction.

<u>Other treasury policies</u>

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 (described in more detail at material contract (e) of Part VII (Additional information) below)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 drawings under the Rp 350 billion DBS amortising term loan facility (described in more detail at material contract (h) 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, until recently, 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 receipt by REA Kaltim during 2010 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) has called into question this policy but the directors hope that the assessment will be reversed on appeal so that the policy can be maintained. Pending the outcome of the appeal the group has decided not to hedge the Indonesian rupiah borrowings under the Rp 350 billion DBS amortising term loan facility. 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 between six and twelve months and a cash balance in Indonesian rupiahs up to the amount of its Indonesian rupiah borrowings but, otherwise, to keep all cash balances in 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 65.

(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, more recently, as a member of the nomination committee. 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 as a non-executive director in 1997 and 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, including, until May 2011, the chairmanship of AMEC PLC. Aged 66.

(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 as a non-executive director 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 overseas. Aged 77.

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

Mr Killick was appointed a non–executive director in 2006. He is chairman of the nomination committee and a member of the audit and remuneration committees. 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 73.

(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 69.

Directors fall due for retirement under the articles of association of the company as follows: 2012 – Mr Blackett, Mr Lim and Mr Oakley; 2013 – Mr Killick; and 2014 – Mr Robinow, Mr Green-Armytage, Mr Keatley and Mr Letts. In order to comply with the 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 group is proceeding with its previously announced plan to establish a small regional office in Singapore. A senior executive has recently been recruited to head this office and it is intended that the office should begin operating during 2011. Thereafter, staffing will be increased to an extent appropriate to enable the Singapore office progressively to assume many of the management functions currently performed by the group's head office in London (although the existing group managing director and the chairman have indicated their willingness to continue in their current roles for a period sufficient to ensure management continuity).

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 or whether the group would be better structured as an entirely South East Asian based entity with a parent company listed in that region. Arguments in favour of such a move include the reduction in head office costs that could be expected, the better rating of the group's parent company's shares that might be achieved on, for example, the Singapore Stock Exchange and the arguably wider research coverage of South East Asian companies operating in the agricultural sector.

Following emigrations by some major UK companies and suggestions that more may follow in an effort to avoid UK tax and in some cases restrictions on bonus payments, there have been reports of possible UK legislation to inhibit UK companies transferring themselves overseas. Any decision by the group to move from the UK would not be motivated by either tax or bonus restriction avoidance (indeed there would be no benefit to the group in either respect) but the directors are concerned that legislation designed to prevent others from transferring might remove the flexibility to transfer that the group currently enjoys. Furthermore, whilst the group remains in the UK, it requires staff to undertake its administrative functions. Maintaining that staff requires periodic recruitment and such recruitment is made more complicated if the company's continued presence in the UK remains uncertain.

The foregoing considerations suggest that if an eventual reconstitution of the group as a South East Asia based group is contemplated, such reconstitution should be effected sooner rather than later. This is therefore now under active consideration by the directors.

The board intends to continue as currently constituted until the new Singapore office becomes fully operational (which it is planned will be during 2012) but should then be reconstituted and thereafter in the future refreshed, on the basis of a policy that length of service by independent non executive directors be limited to nine years.

3. **Directors' interests**

Shareholdings

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	-	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	108,008
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 (other than members of the group) of which the directors are currently, or have been within the five years preceding the date of this document, directors, 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 Willington Limited.

Past directorships - 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 – 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 l 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, AMEC 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 2010 were as follows:

	Remuneration £'000	Other* £'000	Total £'000
R M Robinow	180	3	183
J C Oakley	280	139	419
D J Blackett	22	-	22
J M Green-Armytage	20	-	20
J R M Keatley	20	-	20
D H R Killick	22	-	22
L E C Letts	20	-	20
C L Lim	20	-	20

** "Other" comprises benefits in kind and, in the case of Mr Oakley, a bonus of £65,000 and payments in lieu of pension contributions of £55,000.*

Note: The remuneration shown as payable to Mr Green-Armytage, Mr Letts and Mr Lim was paid 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, he received reduced remuneration in respect of 2008 and 2009 and, together with an agreed further reduction of £15,000 in 2011, this will fully offset the applicable benefit in kind.

Remuneration paid to Mr Blackett and Mr Killick includes, in each case, a fee of £2,500 in recognition of the additional services they perform by virtue of their membership of the audit committee.

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. In recognition of his withdrawal from ordinary membership of the scheme ahead of attaining the age of 65, the company is paying Mr Oakley an amount in lieu of the pension contributions that the company would otherwise have paid to the pension scheme. The amount in lieu payable in 2010 was £55,000. 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 2010 and their allocation by activity was as follows:

	2008	2009	2010
Agricultural (permanent)	3,416	3,929	4,121
Agricultural (temporary)	2,578	2,210	2,315
Coal	2	14	14
Head office	7	7	7
	6,003	6,160	6,457

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

6. **Long term incentive plans**

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 first and second plans (together the "plans") were 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 was eligible to participate in either plan. The first plan period commenced on 1 January 2007 and ended on 31 December 2010 and the second plan period commenced on 1 January 2009 and will end on 31 December 2012 (the "performance periods").

Under the plans, participants were awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vested or will vest to an extent that is dependent upon the achievement of targets. Vested entitlements may be exercised in whole or part at any time within the six years following the date upon which they vest. 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 423.93p in the case of the first plan and 229.83p in the case of the second plan, being the market prices of an ordinary share on the dates with effect from which the plans were agreed after adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plans.

Each plan provided that the vesting of a participants' potential entitlements to notional ordinary shares would be determined by key performance targets with each performance target measured on a cumulative basis over the applicable performance period. Under the first plan, for which the performance period has now ended, there were three key performance targets with each target governing the vesting of one third of each potential entitlement. The three targets related to total shareholder return, cost per tonne of crude palm oil produced and annual planting rate achieved. Under the second plan, for which the performance period is continuing, there are two key performance targets with each target governing the vesting of one half of each potential entitlement. The two targets relate to total shareholder return and cost per tonne of crude palm oil produced. Under the first plan there were, and under the second plan there are, threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. Targets were or are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

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. Vested entitlements will be exercisable for a period of one month following the applicable date.

At the date of this document, entitlements to a total numbers of 35,218 notional ordinary shares had vested under the first plan and awards of potential entitlements over a maximum of 40,292 notional ordinary shares had been made and remain outstanding under the second plan. On the basis of the market price of the ordinary shares on 22 June 2011 (being the latest practicable date prior to the date of this document) of 693p per share, the total gain to participants in respect of their vested and potential entitlements would, if the latter had vested in full, be £281,382.

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 Code provide a widely endorsed model for achieving this. The directors seek to apply the Code principles in a manner proportionate to the group's size but, as the Code permits, reserving the right, when it is appropriate to the individual circumstances of the company, not to comply with certain 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 principles of the 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 group's internal audit function in Indonesia 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:

	Authorised		Issued and fully paid	
	Number	Amount £	Number	Amount £
Preference shares	45,000,000	45,000,000	27,063,681	27,063,681
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:

	Authorised		Issued and fully paid	
	Number	Amount £	Number	Amount £
Preference shares	45,000,000	45,000,000	42,063,681	42,063,681
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 2007, there have been the following changes in the authorised and issued share capitals of the company:

(a) 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;

(b) 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;

(c) on 6 November 2009, 1,490,000 preference shares were issued, fully paid, by way of a placing at £1.0318 per share;

(d) 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;

(e) 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;

(f) 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;

(g) on 29 October 2010, 9,000,000 preference shares were issued, fully paid, by way of a placing at £1.00 per share; and

(h) on 14 June 2011, the authorised share capital of the company was increased from £37.75 million to £55.25 million by the creation of 17,500,000 preference shares.

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 14 June 2011:

(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 (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £1,896,363.75; and

  (ii) preference shares up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £17,936,319,

  such authorisations to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2012), 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 (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities) 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; and

(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 sub-section (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 2012), 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) Subject to any rights or restrictions for the time being attached to any class or classes of shares and to any other provisions of 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 each person present as a duly appointed proxy of a shareholder entitled to vote has one vote for each shareholder he is representing as proxy. Upon a poll each shareholder who is present in person or by one or more duly appointed proxies 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 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 shares 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 of 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 his 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 Kumala Sakti (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 were issued in February 2010 in conjunction with $15 million nominal of dollar notes (the "coal bonds"). All of these shares were originally owned by external investors. However, all but 10,750 of such shares have recently been acquired by the company.

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 2010 or put in hand during the period from 1 January 2011 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 22 June 2011 (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 Holdings Limited	9,957,500	29.8
Prudential plc group of companies	4,760,229	14.24
Alcatel Bell Pensioenfonds VZW	4,167,049	12.47
Artemis UK Smaller Companies	1,919,400	5.74
JPMorgan Asset Management (UK) Limited	1,703,906	5.10

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 is also 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 on new preference shares

The company will not be required to withhold tax at source on any dividends it pays to its 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).

Provided that certain tax avoidance provisions do not apply and 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 chargeable gains on new preference shares

(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 UK 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.

<u>Possible emigration to South East Asia</u>

(a) Exchange of preference shares in the company for preference shares in REA SEAsia

(i) Taxation of chargeable gains

For the purposes of United Kingdom taxation of chargeable gains, the transfer of preference shares in the company in exchange for preference shares in REA SEAsia should be regarded as a reorganisation of the company's share capital. Accordingly, on exchange the shareholder should not be treated as having disposed of his preference shares in the company. Instead, the preference shares in REA SEAsia should be treated as the same asset as the preference shares in the company, acquired at the same time and for the price at which the shareholder acquired his preference shares in the company.

The capital gains treatment on a later disposal of the REA SEAsia preference shares will be as set out under "Taxation of chargeable gains on new preference shares" above.

(ii) Taxation of dividends – corporate shareholders

If REA SEAsia is located in a jurisdiction in which there is no domestic withholding tax imposed on dividends (such as Singapore) and which treats fixed dividends on preference shares as dividends and not as interest then the taxation treatment of any dividends in respect of preference shares in REA SEAsia will be as set out under "Taxation of dividends on new preference shares" above.

(iii) Taxation of dividends – individual shareholders

Subject to the assumptions under (ii) above, where a UK resident individual holds less than 10 per cent of REA SEAsia's issued preference share capital, the taxation treatment on receipt of dividends will be as set out in "Taxation of dividends on new preference shares" above.

If an individual shareholder holds 10 per cent or more of the issued preference share capital such individual will not be entitled to a UK tax credit in respect of dividends paid on the preference shares in REA SEAsia.

(b) Purchase of preference shares by REA SEAsia for cash

The purchase of preference shares by REA SEAsia for cash will be treated as a third party disposal of the preference shares concerned by the vending shareholder. The sum received by the shareholder in respect of such shares will be capital in nature, and the taxation treatment will be as set out in "Taxation of chargeable gains on new preference shares" above.

(c) Payments received on a winding up of the company

On a winding up of the company, holders of preference shares are entitled to receive payment of sums equal to the par value of the preference shares held together with an amount equal to accrued dividends on the preference shares. Such payments should be treated as capital receipts arising from a disposal of preference shares and the taxation treatment should therefore be as set out in "Taxation of chargeable gains on new preference shares" above.

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 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;

(e) 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 currently undrawn and Facility 2 having been 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;

(f) 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;

(g) 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;

(h) a facility agreement dated 27 July 2010 and made between (i) SYB as borrower and (ii) 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 99 billion) and an uncommitted revolving credit facility in the amount of $1,000,000 (including sub-facilities in rupiah) (currently undrawn) (the "RCF"). DBS can, at any time and at its sole discretion, cancel the RCF and declare any amount drawn under it immediately repayable;

(ii) the term for each loan drawn under the ATLF is a maximum of eight years from the date that such loan is drawn-down, subject to all amounts drawn under the ATLF becoming repayable on the ATLF expiry date (being the earlier of 8 years from the first draw-down and 31 December 2018). The availability period of the ATLF is four years from the signing of the facility agreement and upon the expiry of the availability period, if SYB has not drawn-down the entire ATLF any amounts undrawn shall no longer be available for draw-down. Under the RCF, the term for each loan drawn is a maximum of two months from the date that such loan is drawn-down and the RCF shall expire on 27 July 2011;

(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) 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 two month loan term (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 (ii) above (or, if earlier, following demand from DBS to make immediate repayment);

(v) 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

(vi) SYB gave various representations, warranties and undertakings to DBS, including certain financial covenants;

(i) a trust deed dated 29 November 2010 and made between (i) REA Finance (as issuer), (ii) the company (as guarantor), (iii) REA Services (as co-guarantor) and (iv) Capita Trust Company Limited (as trustee) constituting £50 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance; 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 by REA Services; the obligation of REA Services as co-guarantor are secured principally by charges granted by REA Services over outstanding loans owed by REA Kaltim and SYB to REA Services;

(j) waivers made by way of letters dated 16 June 2011 from the company to MSD Capital and other placees of KCC participating preference shares (within the meaning of the placing agreement referred to at material contract (f) above) pursuant to which each placee agreed that, as a term of the agreement for the purchase by the company of the KCC participating preference shares held by such placee at $11 per share, such placee would not exercise, nor seek to exercise, the put option granted by the company pursuant the placing agreement referred to at material contract (f) above in the event of a restructuring of the group under a new parent company listed in South East Asia; and

(k) a placing agreement made by way of letter dated 23 June 2011 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 15,000,000 new preference shares for cash at a subscription price of 103p 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 16 August 2011; 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 31 December 2010, being the date to which the latest audited 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 and in note 39 to the group's annual report and accounts and in note (xi) to the company's financial statements in the statutory accounts for the three years' ended 31 December 2010 (each of which is incorporated into this document by reference) and for directors' remuneration payable on a similar basis subject to normal annual increments in respect of 2011, there have been no related party transactions entered into by the company or any member of the group during the 2008, 2009 and 2010 financial years or during the period from 31 December 2010 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, there are no, nor have there been within the twelve months preceding the date of this document, any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the company is aware) which may have or have had in the recent past significant effects on the company and/or group's financial position or profitability.

The disputed amounts the subject of the two tax appeals are Rp 39.5 billion ($4.4 million) in respect of the 2006 appeal and Rp 102.6 billion ($11.4 million) in respect of the 2008 appeal against which the group had, at 31 December 2010, made provisions of, respectively, $4.4 million and $5.5 million. 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 which is a branch of the Indonesian Supreme Court. Both the 2006 and 2008 appeals were rejected by the appeal section of the Indonesian tax authority. The 2006 appeal is currently awaiting a decision by the Indonesian tax court and the 2008 appeal is currently awaiting a hearing by the same court. The disputed amounts have been paid in full as required by law pending decisions by the Indonesian tax court.

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 2011 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 15,000,000 new preference shares will be issued pursuant to the placing) to amount in total to £460,000.

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 2010 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, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

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; and

(b) the annual reports of the company for the three years ended 31 December 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
"CDM"	PT Cipta Davia Mandiri, a subsidiary of the company incorporated in the Republic of Indonesia
"company"	R.E.A. Holdings plc
"Code"	the UK Corporate Governance Code published in May 2010 by the Financial Reporting Council
"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
"DBS"	PT Bank DBS Indonesia
"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 2 Broadgate, London EC2M 7UR
"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
"KKS"	PT Kartanegara Kumalasakti
"KMS"	PT Kutai Mitra Sejahtera
"Listing Rules"	the Listing Rules of the FSA
"London Stock Exchange"	London Stock Exchange plc
"new preference shares"	up to 15,000,000 preference shares 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
"PBJ"	PT Putra Bongan Jaya
"placing"	the placing of up to 15,000,000 new preference shares by Guy Butler at a

	subscription price of 103p 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 15,000,000 new preference shares pursuant to the placing 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
"RSPO"	Roundtable on Sustainable Palm Oil
"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 29 November 2010 made between REA Finance B.V (as issuer), the company (as guarantor), REA Services (as co-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 incorporates by reference the following contents in the annual report and accounts of the company for the three years ended 31 December 2010:

(a) (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;

(b) (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 111 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

(c) (i) the auditor's report for the group on pages 77 to 78 of the 2010 annual report and accounts of the company (the "2010 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 79 to 82 of the 2010 Annual Report, (iii) the notes to the consolidated financial statements (including significant accounting policies) on pages 83 to 113 of the 2010 Annual Report, (iv) the directors' remuneration report for the group on pages 70 to 74 of the 2010 Annual Report, (v) the auditor's report for the company on pages 114 to 115 of the 2010 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 116 to 117 of the 2010 Annual Report and (vii) the notes to the company financial statements (including significant accounting policies) on pages 118 to 125 of the 2010 Annual Report; and

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	103p per share
Number of preference shares currently in issue	27,063,681
Number of new preference shares proposed to be issued pursuant to the placing	Up to 15,000,000
Number of preference shares expected to be in issue upon completion of the placing (assuming all of the new preference shares are issued)	42,063,681
Maximum gross proceeds of the placing	£15.45 million

Expected timetable for the placing

Issue and listing of new preference shares and commencement of dealings in the new preference shares	19 July 2011
CREST accounts credited in respect of the new preference shares	19 July 2011
Despatch of definitive certificates (where applicable) in respect of the new preference shares	2 August 2011

Dated: 23 June 2011