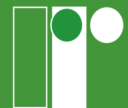
R.E.A. HOLDINGS PLC - ANNUAL REPORT 2008



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00671099 (England and Wales)

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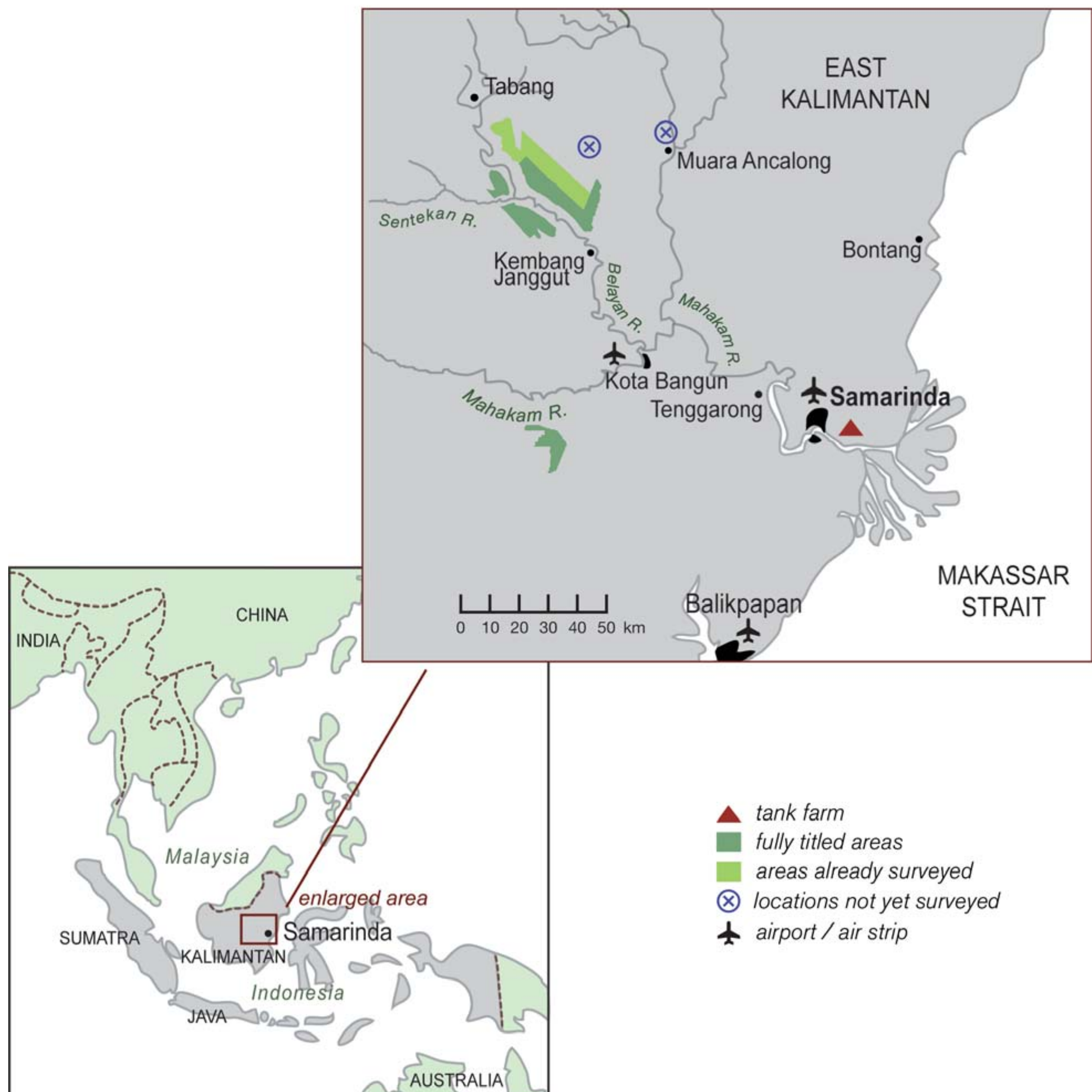
Maps showing plantation areas



Summary of results

for the year ended 31 December 2008

	2008 $'000	2007 $'000	Change %
Revenue	79,630	57,600	+ 38
Earnings before interest, tax, depreciation, amortisation and biological gain*	45,700	43,346	+ 5
Profit before tax	36,309	47,010	- 23
Profit for the year	25,773	31,997	- 19
Profit attributable to ordinary shareholders	23,833	29,453	- 19
Cash generated by operations+	50,896	34,831	+ 46

* see note 5 to consolidated financial statements
\+ see note 35 to consolidated financial statements

Earnings per ordinary share (diluted) in US cents	71.5	89.6	- 20

Average exchange rates	2008	2007	2006	2005	2004
Indonesian rupiah to US dollar	9,757	9,166	9,129	9,756	8,978
US dollar to pound sterling	1.84	2.01	1.86	1.82	1.84

Key statistics

for the year ended 31 December 2008

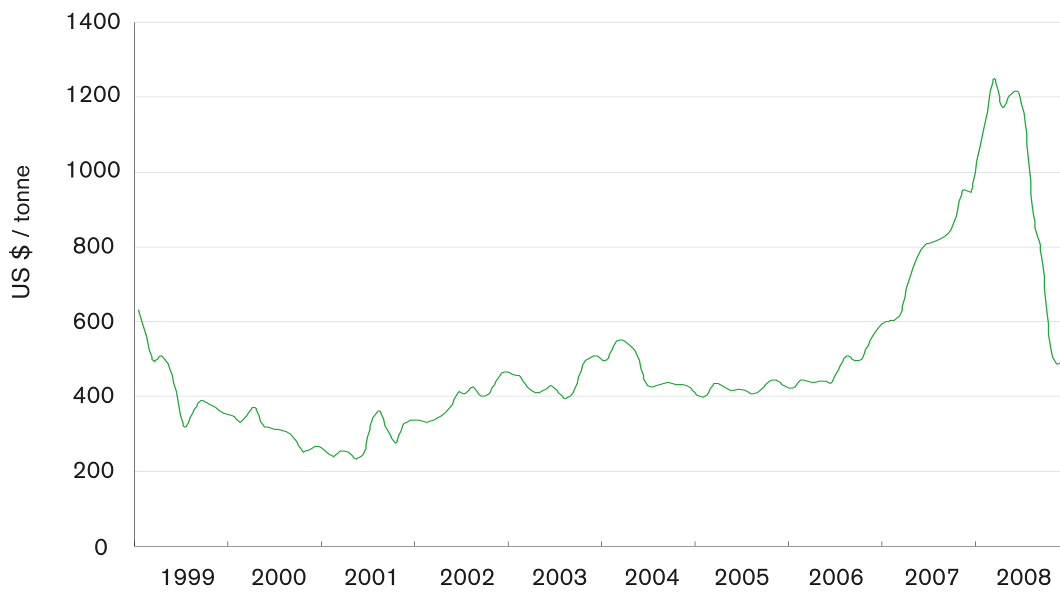
	2008	2007	2006	2005	2004
Allocated area - Hectares					
Mature oil palm	16,487	13,080	13,080	13,085	13,142
Immature oil palm (developed in prior years)	9,032	11,814	5,250	3,000	–
Immature oil palm (developed in current year)	2,781	1,514	6,564	2,250	3,000
Under preparation for oil palm development	–	11,500[+]	6,500	6,000	4,500
	28,300	37,908	31,394	24,335	20,642
Reserve area [o]	86,541	84,018	34,022	41,801	24,793
Total	114,841	121,926	65,416	66,136	45,435

[+] includes 5,000 hectares outstanding from 2007 planting program.

[o] includes conservation areas, roads and other infrastructure, areas available for planting and areas under negotiation.

	2008	2007	2006	2005	2004
Production - Tonnes					
Oil palm fresh fruit bunch crop - group	450,906	393,217	332,704	312,676	293,883
Oil palm fresh fruit bunch crop - external	6,460	2,767	1,372	679	–
	457,366	395,984	334,076	313,355	293,883
Crude palm oil	105,597	93,229	77,597	73,262	71,473
Palm kernel	20,846	15,660	12,698	12,647	12,169
Total palm products	126,443	108,889	90,295	85,909	83,642
Oil extraction rate	23.1%	23.5%	23.2%	23.4%	24.3%
Kernel extraction rate	4.6%	4.0%	3.8%	4.0%	4.1%
Yields - Tonnes per mature hectare					
Fresh fruit bunches	27.3	29.6	25.5	23.8	22.4
Crude palm oil	6.4	7.1	5.9	5.6	5.4
Palm kernel	1.3	1.2	1.0	1.0	0.9
Total palm products	7.7	8.3	6.9	6.6	6.3

Crude palm oil monthly average price



Share performance graph

Chairman's statement

Presentation of annual report

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and to present its consolidated financial statements in US dollars. The company's individual financial statements are presented separately from the consolidated financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice.

Results

Profit before tax for 2008, as shown in the accompanying consolidated income statement, amounted to $36.3 million against $47.0 million in 2007. The result reflected a negative swing in IFRS fair value adjustments between 2007 and 2008 of $20.5 million with net losses on revaluation of biological assets and agricultural produce inventory of, respectively, $2.7 million and $4.2 million against net gains of $8.0 million and $5.6 million in the prior year. Cash generated from operations in 2008 at $50.9 million was significantly ahead of the $34.8 million generated in 2007.

The loss on revaluation of biological assets was largely the result of the decision taken in October 2008, as referred to under "Land allocations and development" below, to suspend extension planting. This meant that the hectarage developed or in course of development at 31 December 2008 was lower than it would otherwise have been and the fair value of the biological assets at that date was correspondingly reduced. There was little change in the volume of the group's agricultural produce inventory over 2008 but the IFRS requirement to value this inventory at fair market value meant that the movement between opening and closing valuations showed a loss reflecting the fall in CPO prices over 2008.

Deliveries made during 2008 against forward sales contracted in 2006 and, more materially, the sliding scale of duty on exports of crude palm oil ("CPO") from Indonesia applicable during most of 2008 meant that the average US dollar price per tonne realised by the group in respect of 2008 sales of CPO, adjusted to FOB, Samarinda, was $664, not a great deal higher than the average price of the preceding year of $624. 2008 revenues did benefit from the higher production achieved during the year, but this was significantly offset by a higher cost of sales reflecting inflationary increases in many operating input costs. Specifically, prices for diesel and fertiliser moved to new highs while labour costs rose in line with increases in the general cost of living in Indonesia. The costs of upkeeping an additional 3,189 hectares of plantings that were classified as mature from the start of 2008 also contributed to the higher cost of sales.

During 2008, reductions were announced in future rates of Indonesian corporation tax. This has permitted a reduction in the provision for deferred tax at 31 December 2008 with a consequential credit to income account. Offsetting this, the amount previously provided for tax has been increased to provide in full for an Indonesian assessment of tax on a group company's 2006 profits at a higher level than was originally expected although significant elements of the assessment are disputed and a material recovery of the amounts paid on account is expected. The net result is still a reduced rate of tax charge in 2008 as compared with 2007.

At the after tax level, profit for the year for 2008 was $25.8 million against $32.0 million in 2007 while profit attributable to ordinary shareholders was $23.8 million against $29.5 million. Fully diluted earnings per share amounted to US 71.5 cents (2007: US 89.6 cents).

Accounting reference date

It was noted in the company's 2007 annual report that the directors were contemplating a change in the company's

accounting reference date from 31 December to 28 February. A pre-requisite of such a change was the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V. ("sterling notes") and this was duly obtained in August 2008. Subsequent discussions with the group's Indonesian professional advisers have indicated that negative Indonesian fiscal consequences would be likely if the company's Indonesian subsidiaries were to change their reporting periods so that these remained co-terminous with those of the company following a change in the latter's accounting reference date. Accordingly, the directors have decided that the company should retain its existing accounting reference date of 31 December.

Operations

The crop out-turn for 2008 amounted to 450,906 tonnes of oil palm fresh fruit bunches ("FFB"), 7.1 per cent ahead of the budgeted crop of 421,000 tonnes and an increase of 14.7 per cent on the FFB crop for 2007 of 393,217 tonnes. Yield per hectare for 2008 was 27.3 tonnes compared with 29.6 tonnes in 2007. The reduction reflected the fact that the 3,189 hectares of previously immature areas that were brought into harvesting in 2008 initially yielded 17.6 tonnes per hectare as compared with the average yield for fully mature areas of 28.9 tonnes per hectare.

Rainfall for 2008 averaged 3,504 mm across the group's operations, down on the 4,413 mm of the previous year but nevertheless wholly satisfactory for oil palm cultivation, particularly as the rainfall was well distributed.

During 2008, the capacity of the group's second oil mill (which was brought into production in 2006 with an initial capacity of 40 tonnes per hour) was expanded to 60 tonnes per hour. Further expansion to 80 tonnes per hour is planned for 2010.

External purchases of FFB from smallholders in 2008 totalled 6,460 tonnes (2007: 2,767 tonnes). Based on the combination of the group's own FFB production and externally purchased FFB, the CPO and palm kernel extraction rates for the year amounted to, respectively, 23.1 per cent and 4.6 per cent (2007: 23.5 per cent and 4.0 per cent). The decline in the CPO extraction rate is attributed by the directors to a combination of overcast conditions during part of the year (reducing the photosynthesis upon which oil formation partly depends) and pressure on harvesting standards. The group is implementing measures designed to reduce harvester turnover and make it easier to recruit additional harvesters. The improvement in the palm kernel extraction rate reflected successful modification of the palm kernel extraction process to improve nut cracking efficiency.

The capacity of the kernel crushing plant was increased during 2008 from 100 to 150 tonnes per day to cater for projected crop increases from existing plantings in 2009 and subsequent years. Crude palm kernel oil ("CPKO") production for 2008 (again based on the combination of the group's own FFB production and externally purchased FFB) amounted to 8,190 tonnes (2007: 6,414 tonnes). This reflected a CPKO extraction rate for the year of 39.3 per cent (2007: 41.0 per cent).

Land allocations and development

Continuing efforts to ensure the availability of land for expansion resulted in the addition to the group during 2008 of two further Indonesian companies, PT Kutai Mitra Sejahtera ("KMS") and PT Putra Bongan Jaya ("PBJ"), each holding a substantial land allocation in the vicinity of the group's existing estates. Each of these further Indonesian companies is, or on completion of necessary legal formalities will be, owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors. Following these acquisitions and a recent

agreement by the Indonesian authorities to issue a land title certificate in respect of 11,625 hectares held by PBJ, the fully titled land areas now held by the group amount to 46,841 hectares. In addition, the group holds land allocations over areas totalling 68,000 hectares that are not yet fully titled (including, for this purpose, an allocation of 20,000 hectares that is in course of renewal following expiry of the original letter of allocation).

The not yet fully titled land allocations are at different stages of titling and the titling process may be expected to result in exclusion of areas the subject of conflicting land claims that cannot be resolved and those areas having special environmental value. Moreover, of the allocated areas in respect of which full titles are eventually issued, a proportion will have to be set aside for conservation and a further proportion will be required for roads, buildings and other infrastructural facilities. Accordingly, it must be expected that of the not yet fully titled land allocations, the area that eventually becomes available for planting with oil palms will be significantly less than 68,000 hectares.

The group had hoped that it would be able to develop land during 2008 and 2009 at a rate sufficient to enable it to reach a target of 45,000 developed hectares by the end of 2009. With the onset of the international financial crisis and the accompanying sharp fall in commodity prices, the directors concluded in October 2008 that prudence dictated that the 45,000 hectare target be abandoned and that, until the world financial outlook became clearer, no material new funds should be committed to extension planting. The combination of this decision and a continuation into the first half of 2008 of the delays experienced in 2007 in making allocated land actually available for development meant that the area developed in 2008 amounted only to 1,892 hectares against the original target of 6,500 hectares.

Following the improvement in CPO prices over 2009 to date and the development of a seemingly better tone to the CPO market, the directors have recently decided that extension planting should be resumed. Given all the economic uncertainties, a target has not yet been set for 2009 development but, when it is, the directors will wish to see this at a level such that the prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

The group currently holds substantial stocks of seedlings in its nurseries. These were grown from seed in anticipation of the planting programmes that were previously planned and have now been cancelled. Seedlings not utilised for the group's 2009 development programme or for smallholder cooperative plantings will be pruned and retained for future use.

Social responsibility

The group continues to place importance on the discharge of its social obligations. Internally, employee welfare and the training and development of employees remain a priority. Externally, smallholder plantings and community development projects supported by the group and the work of the group's conservation department are being extended. The group is considering the conversion of the conservation department into a charitable foundation with a view to providing access to funding from third parties to augment the funding provided by the group so as to permit expansion of conservation activities beyond the immediate areas of the group's activities into the wider Belayan river basin.

The company's principal operating subsidiary has recently been awarded ISO 14001 certification in respect of the group's two oil mills and kernel crushing plant and hopes to receive certification for six estate units in the second half of 2009. The group expects to be in a position to

Chairman's statement continued

seek accreditation from the Roundtable for Sustainable Palm Oil in 2010 after the ISO 14001 certification process has been completed.

New initiative

Following a decision in late 2007 that the group should explore opportunities in coal mining in East Kalimantan, in the second half of 2008, the group acquired rights in respect of two adjoining coal concessions, the first, Liburdinding, covering an area of some 1,000 hectares and the second, Muser, some 2,000 hectares. The concessions are located in the southern part of East Kalimantan, close to a major established coal mining operation and within easy reach of existing port facilities through which coal can be shipped.

Geological surveys conducted to date suggest that the concessions contain commercial deposits of coal having typical gross calorific values per tonne of between 5,800 and 6,200 kcal/kg in the case of Liburdinding and between 7,000 and 7,200 kcal/kg in the case of Muser. A preliminary survey by an independent firm of geologists in Jakarta indicated coal reserves of 14.7 million tonnes for Liburdinding and 17.6 million tonnes for Muser. The group is commissioning a further assessment of reserves in the two concessions in compliance with the rules of the Australasian Joint Ore Reserves Committee.

After a combination of geoelectric surveys and drilling to delineate and assess the characteristics of the proven deposits on both concessions, detailed mining designs have been completed for Liburdinding and are being prepared for Muser. The exploration licence held in respect of Liburdinding has been converted to an exploitation licence and the conversion of the exploration licence in respect of Muser is at an advanced stage. Necessary work on upgrading roads from the concession areas to the port facility has taken longer than originally hoped because of heavy rains but has now been completed. Contractors appointed to commence mining operations on Liburdinding are now on site and it is hoped that production from this concession will start in the near future. Production from the Muser concession should follow within a few months. A small team of experienced managers has been recruited to oversee the mining operations.

Pending validation of theoretical plans by actual operating experience, the directors remain cautious as to the returns achievable from the group's new coal interests, particularly given that coal prices have fallen significantly over the past six months. Nevertheless, the group's internal projections continue to indicate that margins achievable even at current coal prices will justify the investment made which amounted at 31 December 2008 to $5.4 million.

Finance

During 2008, a further £28,000,000 nominal of sterling notes were created of which £15,000,000 nominal were issued for cash at a subscription price of 99.8682 per cent of par. The effect of this issue was to increase the nominal amount of sterling notes in issue to £37,000,000 and the prospective total size of the eventual sterling note issue to £50,000,000 although under current market conditions an early issue of the unissued balance of £13,000,000 nominal of sterling notes appears unlikely.

Following this latest issue of sterling notes, group indebtedness at 31 December 2008 amounted to $108.3 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $12.9 million, £37 million nominal of sterling notes (carrying value: $50.2 million), $15.4 million in respect of the hedge of the principal amount of sterling notes referred to below, $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.6 million) and other short term indebtedness

(including obligations under finance leases) of $0.2 million. Against this indebtedness, at 31 December 2008 the group held cash and cash equivalents of $30.3 million. The group has entered into long term sterling US dollar debt swaps to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but, in the case of interest, only as respects interest payments falling due up to 31 December 2015).

Following recent discussions with the banks providing the Indonesian consortium loan facility, it has been agreed that the terms of the facility will be reconstituted so as to provide the group going forward with an $11.75 million term loan repayable over five years and a revolving working capital facility, renewable annually, of $4.75 million.

At current CPO prices and with the agreement to reconstitute the Indonesian consortium loan facility, the group can expect that, excluding expenditure on new extension planting, cash flows from operations for 2009 will comfortably exceed the amounts required to fund planned capital and development expenditure and debt service. As indicated under "Land allocations and development" above, the directors have recently decided that extension planting should be resumed but on the basis that such resumption will be at a level such that the prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

The group may seek further debt funding to permit the group to proceed with a higher level of extension planting than the group could otherwise afford. However, the directors will require that any such additional debt funding is provided predominantly by way of medium term loans and will limit additional borrowings to levels that the directors are confident that the group's equity base can comfortably sustain.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2008 were duly paid. Dividends totalling 3p per ordinary share have been paid in respect of 2008 (2007: 2p per ordinary share). These comprised a first interim dividend of 1.5p per ordinary share paid on 26 September 2008 and a second interim dividend in lieu of final of 1.5p per ordinary share paid on 30 January 2009. In addition, the company made a capitalisation issue to ordinary shareholders of 1,302,954 new preference shares on the basis of one new preference share for every 25 ordinary shares held on 24 September 2008.

The group retains ambitious plans for continued extension planting of oil palms. This will require substantial investment. Moreover, the uncertainties of the current world economic situation and the possibility that CPO prices may fall back from current levels dictate that the group should be careful to husband its cash resources. While this remains the case, the directors will inevitably feel constrained as to the rate at which they can prudently declare, or recommend the payment of, future ordinary dividends.

The directors do appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. The directors have previously stated their intention that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years and they expect that this will prove the case with the level of total ordinary dividend set in respect of 2008. Under normal circumstances, the directors would hope that the prospective crop increases of coming years will permit a progressive ordinary dividend policy albeit that the rate of progression is likely to be steady rather than dramatic.

Whilst the directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in both 2007 and 2008, 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 cash dividends, the current state of markets for fixed return securities of smaller listed companies may make it impractical to make another such issue in 2009.

Staff

The directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

Future direction

The directors commented in the company's 2007 annual report that if, as they hoped would be the case, the group was able in future to rely, to a greater extent than hitherto, on internally generated equity, and if the markets for listed securities in Indonesian and other Eastern financial markets continued to mature, it might be that a reconstitution of the group as an entirely South East Asian based entity would better serve investors in the group than continuation of the present group structure. Given the worldwide economic problems that have subsequently surfaced, the directors do not believe that new corporate initiatives are currently appropriate. They have therefore deferred any further consideration of possible changes to the corporate structure of the group until the financial environment becomes more stable.

Prospects

The FFB crop for 2009 has been budgeted at 486,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). This crop is a little below the level that would result if palms of an equivalent age achieved similar yields per hectare in 2009 to those of 2008. Crops to end March 2009 were in line with budget.

During 2008, the CPO price, spot CIF Rotterdam, rose from an opening level of some $950 per tonne to a high in early March of just under $1,400. It then declined steadily to $705 per tonne at the end of September, fell sharply during October to a low of $435 per tonne and then recovered slightly to a closing level at the end of the year of $525 per tonne. The average price for the year was $939 per tonne (2007: $780 per tonne). The early months of 2009 have seen the recovery in prices continue and the CPO price, CIF Rotterdam, currently stands at $780 per tonne.

For the moment, vegetable oil prices appear to have decoupled from the price of petroleum oil and the improving price trend is being driven by good demand for conventional uses of vegetable oil assisted by restocking in the major consuming countries which had reduced stocks in the immediate aftermath of the international financial crisis. Industry forecasters are predicting some slowdown in the rate of growth in CPO supply in 2009 in part reflecting increased replanting of older areas which are becoming uneconomic to harvest at current CPO prices and for which the Malaysian government is currently providing financial incentives. Although reports indicate that US soybean plantings for the current season will be at a higher level than for the 2008 season, the increase is projected to be slight. It is likely to be offset fully by the effects of drought on South American soybean crops which are expected to show a decline.

In short, the supply demand balance going forward is moderately encouraging, particularly as slower growth in meat demand may adversely impact the economics of future soybean plantings given that revenues from soybean cultivation depend as much on sales of soya meal to the animal feed market as they do on sales of the

oil component of the soybeans harvested. Within the CPO component of the vegetable oil complex, less readily available credit and reduced revenues are likely to lead to some slowdown in extension planting and, particularly as respects less efficient growers, reduction in fertiliser applications. This should result in some scaling back in the rate of future growth in CPO supply.

In the very short term, CPO must expect to lose some market share to soya oil as a recent reduction in Indian import duties applicable to soya oil is likely to encourage some substitution of soya oil for CPO in the Indian market. Looking further forward, while it appears likely that bio-fuels will prove a less significant component of future vegetable oil consumption than was at one time expected, the fundamentals underlying demand for vegetable oils for conventional uses have not changed. World population continues to grow and, in the key markets of India and China, lower prices are likely to stimulate demand which will also continue to increase with economic growth.

With the recent decision to resume extension planting, the group will continue to expand its planted hectarage. Moreover the new plantings that have been established in recent years mean that the group can anyway look forward to steadily increasing crops for several years to come. As inflationary pressures on costs subside, margins may reasonably be expected to remain at satisfactory levels. The directors therefore retain their previously expressed confidence in the group's future.

RICHARD M ROBINOW
Chairman
27 April 2009

Review of the group

Introduction

The directors present to shareholders of R.E.A. Holdings plc the review of the group set out below. This review has been prepared solely to provide shareholders as a body with information complementing the accompanying financial statements in order to facilitate understanding of the group's business and strategic objectives and to permit assessment of the likelihood of the group realising those objectives. This review should not be relied upon by any other party or for any other purpose.

This review contains forward-looking statements which have been included by the directors in good faith based on the information available to them up to the time of their approval of this review. Such statements should be treated with caution given the uncertainties inherent in any prognosis regarding the future and the economic and business risks to which the group's operations are exposed.

In preparing this review, the directors have sought to follow best practice as recommended by the reporting statement on operating and financial reviews published by the Accounting Standards Board but this review may not comply with that statement in all respects. The directors have relied mainly on qualitative rather than quantitative assessments in relation to environmental and social matters. In the context of the current scale of the group's operations, the directors consider qualitative assessment an appropriate evaluation of the group's performance in these areas.

This review has been prepared for the group as a whole and therefore gives emphasis to those matters that are significant to the company and its subsidiaries when taken together. The review is divided into six sections: overview; operations; sustainability; new initiative; finances; and risks and uncertainties.

Overview

Nature of business and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms. A detailed description of the group's oil palm activities is provided under "Operations" below.

During 2008, the directors decided to augment the traditional plantation operations of the group by developing a modest coal mining operation also based in East Kalimantan. Details of this diversification are provided under "New initiative" below.

The group and predecessor businesses have been involved for over one hundred years in the operation of agricultural estates growing a variety of crops in developing countries in South East Asia and elsewhere. The group today sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a UK listed company and then using capital raised through the company to develop significant natural resource based operations in Indonesia (principally in agricultural commodities). In this endeavour, the group's inheritance from its past represents a significant intangible resource in that it underpins the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project development and in recruiting management of a high calibre.

Other resources that are important to the group are its developed base of operations, bringing with it an established management team familiar with Indonesian regulatory processes and social customs, a trained workforce and the group's land bank.

Objectives

The group's objective is to provide attractive overall returns to investors in the shares and other securities of the company from the operation and expansion of the group's existing business, while honouring the group's social obligation to facilitate economic progress in the localities of the group's activities and to develop the group's operations in accordance with best corporate social responsibility and sustainability standards. Achievement of this objective is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance its realisation.

Since CPO is a primary commodity, its price is determined by world supply and demand. The CPO price may, and does, fluctuate in ways that are difficult to predict and which the group cannot control. As its strategy for increasing profits from its agricultural operations, the group therefore seeks to increase crops and to minimise unit production costs with the expectation that the lower cost producer of CPO is better placed to weather any downturn in price than less efficient competitor producers of CPO and other vegetable oils. To this end, the group has adopted a two pronged approach.

First, the group aims to capitalise on its principal resources by developing the group's land bank as rapidly as logistical and financial constraints permit with a view to utilising the group's existing management capacity to manage a larger business. Secondly, the group strives to manage its established 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.

As an additional financial objective, the group aims to enhance returns to equity investors in the company by procuring that a prudent proportion of the group's funding requirements is met with prior charge capital in the form of fixed return permanent preferred capital and debt with a maturity profile appropriate to the group's projected future cash flow.

Diversification

The group recognises that it is principally dependent upon operations in a single locality producing a single product. This permits significant economies of scale but brings with it risks. The directors therefore believe that the group should be willing to consider possibilities for diversification into areas of activity that complement, and can be developed within reasonable proximity of, the existing oil palm operations. However, they do not regard diversification as a strategic imperative and believe that a decision to diversify should be taken only if a new area of activity offers the prospect of returns on capital invested comparable with, or ideally better than, those achievable from investment of equivalent capital in continued expansion of the oil palm operations in the existing operational areas.

After reviewing and rejecting in recent years a number of diversification opportunities, the directors concluded during 2008 that coal mining in East Kalimantan had the potential to meet the directors' minimum criteria for taking the group into another sphere of activity. Accordingly, as described under "New initiative" below, an initial investment has been made in establishing a modest coal mining operation.

Future direction and succession

Since 2004, the area of oil palm under cultivation by the group has doubled. The group has also increased its processing capacity and, as described under "Sustainability" below, has significantly extended its interaction with the local communities. The directors are confident that this major expansion in the scale of the group's activities will produce significant financial benefits

for the group and its shareholders. However, it has also meant that the group has had to move from a situation in which a few people could together control all of the group's operations to a more structured environment in which responsibilities are departmentalised and senior management has had to learn to manage operations through departments rather than by direct involvement in all operational decisions.

A significant and continuing challenge has been to ensure that, in embedding a more structured environment, the group does not lose the efficiencies of rapid and well informed decision making and the benefits of an internal culture of shared ambitions and mutual respect and loyalty that a smaller organisation can engender. Greater structure inevitably brings with it increased overheads and it is clearly important that those overheads increase returns not internal bureaucracy.

In enhancing its management capacity, the group has focused primarily on the management of its Indonesian operations since all of the group's operating activities take place in Indonesia. Work on designing and implementing a new departmental structure for the Indonesian operations has now been completed and the additional staff positions created by the new structure have been filled. Improvements have also been made to communications with local stakeholders to provide for more regular exchanges of views. In particular, efforts are being made to ensure that management can take maximum advantage of the valuable advice and support that can be provided by local minority investors in group companies, the local boards of the company's Indonesian subsidiaries and the other local advisers that the group now has in place.

The group values its staff and would not wish to lose any of them but the directors believe that, should losses occur, the increased capacity provided by the group's new management structure in Indonesia, coupled with the local independent non-executive support that is now available, does provide reasonable resilience. Moreover, an expanding cadre of younger staff has the capacity to provide for management succession in Indonesia by internal promotion.

The directors commented in the company's 2007 annual report that, whilst the model of marrying developed world capital and Indonesian opportunity with the company as a listed company providing a conduit for UK capital had served the group well, it did require the maintenance of a UK base involving significant overhead. If, as the directors hoped would be the case, the group was able in future to rely, to a greater extent than hitherto, on internally generated equity, and if the markets for listed securities in Indonesian and other Eastern financial markets continued to mature, it might be that a reconstitution of the group as an entirely South East Asian based entity would better serve investors in the group than continuation of the present group structure. Given the worldwide economic problems that have subsequently surfaced, the directors do not believe that new corporate initiatives are currently appropriate and have therefore deferred any further consideration of possible changes to the corporate structure of the group until the financial environment becomes more stable.

Nevertheless, the directors concern remains as to whether a structure in which an Indonesian business is owned through a UK listed company, with the UK overheads that this entails, is really the appropriate long term structure for the group. This will have to be kept under review. In the meanwhile, the directors intend simply to maintain the status quo of the group's London base. Both the managing director and the chairman have indicated that they would like to remain in their present roles for several more years and the directors therefore feel that the issue of London succession can be deferred until it becomes clearer whether succession is needed.

The Indonesian context

During 2008, the Indonesian domestic economy continued its expansion growing by 6.1 per cent. There has been some slowdown following the international financial crisis but the World Bank still projects continuing economic growth during 2009 albeit at a lower rate of 3.4 per cent per annum. Until September 2008, the Indonesian rupiah remained broadly stable against the US dollar around the levels of the preceding two years within a range around Rp9,000 = $1. Subsequent months have seen a decline with the current rate standing at Rp10,650 = $1. Whilst this decline will obviously impact negatively on inflation, other inflationary pressures within the Indonesian economy have eased following the recent declines in raw material prices.

The Indonesian political situation remains stable. It must be expected that in the run up to the presidential election to be held later in 2009 there will be some renewed debate as to the role of foreign investment in the Indonesian economy but Indonesia's continuing need for capital to fund its development appears to be generally recognised. Indonesia is one of the few emerging market countries successfully to have accessed the international bond markets for capital during 2009.

The province of East Kalimantan remained stable and prosperous throughout 2008. The province benefits from a large natural resource base, low population and near full employment. In particular, the coal mining industry continues to develop rapidly within East Kalimantan. Although, as noted under “Area of operations” in "Operations" below, the devolution of authority from central government to provincial governments that has resulted from the Indonesian regional autonomy legislation of recent years has brought with it increased bureaucracy in some areas (in particular land titling), it has also brought benefits to outlying provinces such as East Kalimantan in providing increased resources for provincial development.

Evaluation of performance

In seeking to meet its expansion and efficiency objectives, the group sets operating standards and targets for most aspects of its activities and regularly monitors performance against those standards and targets. In many aspects of the group's activities, there is no single standard or target that, in isolation from other standards and targets, can be taken as providing an accurate continuing indicator of progress. Rather a collection of measures have to be evaluated and a qualitative conclusion reached.

The directors do, however, rely on regular reporting of certain operational progress items that are comparable from one year to the next and may be regarded as key indicators of operating performance. These indicators for any given period comprise:

- the new extension planting area developed; this is measured as the area in hectares of land cleared and planted out or cleared and prepared for planting out during the applicable period;
- the crop of fresh fruit bunches ("FFB") harvested; this is measured as the weight in tonnes of FFB delivered to the group's oil mills during the applicable period; and
- the CPO extraction rate achieved; this is measured as the percentage by weight of CPO extracted from the FFB crop of the applicable period.

Of these indicators, the first provides a measure of the group's performance against its expansion objective. The second and third indicators are measures of field and mill efficiency and, as such, provide a basis for assessing the extent to which the group is achieving its objective of maximising output from its operations.

Quantifications of the above three indicators for 2008 and comparable quantifications for 2007 (in both cases

as sourced from the group's internal management reports) are provided under "Land development" and "Crops and extraction rates" in "Operations" below together with targets for 2009. Qualitative comment on the group's social objectives is also provided under "Employment and social obligations" in "Operations" below and under "Sustainability" below.

Key indicators used by the directors in evaluating the group's financial performance for any given period comprise:

- return on adjusted equity which is measured as profit before tax for the period less amounts attributable to preferred capital expressed as a percentage of average total equity (less preferred capital) for the period; and
- net debt to total equity which is measured as borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity.

Because of the group's material dependence on CPO prices, which have a direct impact on revenues and on periodic revaluations of biological assets, in targeting return on total equity the directors set a norm that they hope will represent an average of the annual returns achieved over a period of seven years.

Percentages for the above two indicators for 2008 and comparable figures for 2007 (derived from figures extracted from the audited consolidated financial statements of the company) are provided under "Group results" and "Financing policies" in "Finances" below, together with target percentages.

Operations

Group structure

All of the group's plantation 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 PT REA Kaltim Plantations ("REA Kaltim") in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, the company has since 2005 established or acquired several additional Indonesian subsidiaries, each bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates. These additional subsidiaries comprise PT Sasana Yudha Bhakti ("SYB") and PT Kartanegara Kumala Sakti ("KKS"), established during 2005 and 2006, PT Cipta Davia Mandiri ("CDM") acquired at the end of 2007, and PT Kutai Mitra Sejahtera ("KMS") and PT Putra Bongan Jaya ("PBJ"), added during 2008. Each of these subsidiaries is, or on completion of necessary legal formalities will 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 process. This process begins with the grant of a land allocation. This is followed by environmental and other

assessments to delineate those areas within the allocation that are suitable for development, settlement of compensation claims from local communities, other necessary legal procedures that vary from case to case and the issue (often in stages) of development permits and land clearing licences. The process is completed by a cadastral survey (during which boundary markers are inserted) and the issue of a formal registered land title certificate (an hak guna usaha or hgu certificate).

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

The group has for some years held hgu land title certificates in respect of 30,106 hectares held by REA Kaltim and 5,110 hectares held by SYB. These titled areas have recently been augmented by 11,625 hectares held by PBJ in respect of which the Indonesian authorities have agreed that an hgu land title certificate can be issued. As a result, the fully titled land areas held by the group now amount to 46,841 hectares.

Land allocations held by the group but not yet fully titled comprise some 11,000 hectares held by SYB, 20,000 hectares held by CDM and 17,000 hectares held by KMS. In addition, the group is seeking renewal of a 20,000 hectares land allocation previously given to KKS as respects which the original letter of allocation has expired. These land allocations are at different stages of titling and the titling process may be expected to result in exclusion of areas in respect of which conflicting land claims cannot be resolved and those areas having special environmental value. Accordingly, the group is likely to be granted full hgu land titles in respect of only a part of the 68,000 hectares just listed. Moreover, of the areas in respect of which full hgu titles are issued, a proportion will have to be set aside for conservation and a further proportion will be required for roads, buildings and other infrastructural facilities. Accordingly, it must be expected that of the areas currently allocated or applied for, the land area that eventually becomes available for planting with oil palms will be significantly less than 68,000 hectares.

All of the not yet fully titled land allocations held or applied for by the group include some areas that require resolution of conflicting claims or some element of rezoning. A particular problem affecting the 11,000 hectares held by SYB has been that of overlapping coal exploration licences (although publicly available geological surveys indicate that such coal as the area contains is low grade and therefore uneconomic to mine at current coal prices). The position in respect of one such licence was resolved during the year but, disappointingly, SYB was then told of the existence of another overlapping licence, although the directors believe that the position in respect of this second licence will also prove capable of resolution.

In relation to the 20,000 hectares previously allocated to, and now reapplied for by, KKS, progress on titling remains, as previously reported, subject to the issue of a decree by the Ministry of Forestry to allow implementation of a new development plan for the Province of East Kalimantan. Whilst the directors remain hopeful that this decree will ultimately be forthcoming, its timing is uncertain and further delay is quite likely. The issues affecting the land allocations of, respectively, 20,000 hectares and 17,000 hectares held by CDM and KMS are less significant and the titling process in respect of these areas is proceeding satisfactorily.

The core operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East

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

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

Subject to current financial constraints, the group continues to look at acquiring further areas suitable for planting with oil palms within the general vicinity of its existing land allocations. In July 2008, the group did agree, in principle, to purchase, subject to certain conditions, the whole of the issued share capital of PT Prasetia Utama, a company holding a full hgu title over some 9,000 hectares of land almost contiguous with the 11,000 hectares land allocation held by SYB. With the subsequent international financial crisis, the group has not to date proceeded with this purchase. Given the crisis, the directors believe that for the immediate future it is likely to be easier to acquire land suitable for oil palm development than has been the case in the recent past.

Land development

Areas planted and in course of development as at 31 December 2008 amounted in total to 28,300 hectares. Of this total, mature plantings comprised 16,487 hectares. A further 2,257 hectares planted in 2005 came to maturity at the start of 2009.

The group had hoped that it would be able to develop land during 2008 and 2009 at a rate sufficient to enable it to reach a target of 45,000 developed hectares by the end of 2009. With the onset of the international financial crisis and the accompanying sharp fall in commodity prices, the directors concluded in October 2008 that prudence dictated that the 45,000 hectare target be abandoned and that, until the world financial outlook became clearer, no material new funds should be committed to extension planting. Consequently, no new oil palm areas have been developed in the period from October 2008 to date.

Land allocated to 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 land clearing licences in respect of the land. During 2007, delays in releasing allocated land areas for development forced the group to suspend extension planting and this situation continued into 2008. Good progress in resolving titling problems permitted the resumption of development around the mid year but efforts to recover the backlog of planned new development were then forestalled by the decision to stop development. As a result, the area developed in 2008 amounted only to 1,892 hectares against the original target of 6,500 hectares.

As discussed under "Revenues and markets" below, the early months of 2009 have seen some recovery in CPO prices. Given this and the development of a seemingly better tone to the CPO market, the directors have recently decided that extension planting should be resumed but, with the continuing economic uncertainties, have not yet set a target for 2009 development. When a target is set, the directors will wish to see this at a level such that the

prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

Achievement of the development target set for 2009 and of the development targets for future years will continue to be dependent upon land becoming available for development as needed. Currently, there is sufficient land available to the group for immediate planting to meet the group's short term development needs. Efforts are continuing to advance titling of other land allocated to the group with a view to adding to the immediately available hectarage as rapidly as possible. Moreover, the group intends that large annual development programmes should in future be split over two or more separate areas so that, if titling setbacks occur in one area, these can hopefully be compensated for by accelerating development elsewhere.

Although recent years have seen significant inflation in development costs, inflationary pressures have eased since the general economic downturn. 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.

The group currently holds substantial stocks of seedlings in its nurseries. These were grown from seed in anticipation of the planting programmes that were previously planned and have now been cancelled. The immediate availability of such seedlings will ensure that if, as is intended, extension planting is resumed during 2009, the group will have the necessary planting material immediately available and that the normal lead time required for the development of new areas of one year in which to procure seed and to develop seedlings for planting out will be avoided. The immediate availability of planting material will also facilitate rapid development of the planned smallholder cooperative plantings described under "Smallholders" below. Seedlings not utilised for the group's own 2009 development programme or for the smallholder cooperative plantings will be pruned and retained for future use.

Processing

The group now operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The first mill began operating in 1998 with an initial capacity of 30 tonnes of FFB per hour. This has since been expanded to a present capacity of 80 tonnes per hour. The second mill was brought into production in 2006 with an initial capacity of 40 tonnes per hour. This was expanded to 60 tonnes per hour during 2008 and further expansion to 80 tonnes per hour is now planned for 2010. The additional capacity provided by such expansion should be sufficient to process the expected increases in FFB crops over the next few years. The group previously indicated that it expected to commence construction of a third oil mill in 2010 but, with extension planting proceeding more slowly than had been hoped, it is now likely that construction will be delayed until 2011.

The group's second oil mill incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels can be further processed to extract the crude palm kernel oil ("CPKO") that the palm kernels contain. The kernel crushing plant was brought into full scale production at the start of 2007 and now processes all kernel output

from both of the group's oil mills. Capacity was increased during 2008 from 100 to 150 tonnes of kernels per day to cater for projected crop increases from existing plantings in 2009 and subsequent years. The kernel crushing plant is economic to run because it operates on power generated by the second oil mill from the combustion of waste products from the CPO and palm kernel extraction processes and such power is surplus to the power requirement for those processes. Moreover, processing kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels.

The group operates its own fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with 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 barge of 3,000 tonnes, which the group time charters, and a number of smaller barges, each of 2,000 tonnes or less, which are owned by the group. The smaller barges are used for transporting palm products from the upriver operations to the transhipment terminal for collection from that terminal by buyers. The 3,000 tonne barge can be used for sea voyages to Malaysia and other parts of Indonesia. This permits the group to deliver CPO and CPKO to customers' nominated destinations in Malaysia and Indonesia.

The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers. Currently, a significant proportion of the group's CPO is sold for delivery to ports in Sabah in East Malaysia. As a result, the 3,000 tonne barge is employed almost exclusively in sailing between Sabah and Samarinda. Because of the relatively short distance involved, this is proving very efficient in minimising transportation costs.

A trial made in 2005 established that it is both feasible and economic to use the barge fleet to transfer CPO from the Samarinda transhipment terminal to ships anchored offshore outside 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) and 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 (although this is not currently the case).

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and palm product outputs at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. To reduce the extra cost that this involves, in 2003 the group acquired a downstream riverside site on which to establish a permanent loading point for use during dry periods. The necessary loading facilities will be developed following completion of a government road that will provide access to the site. Recent progress on the government road has been slow.

Crops and extraction rates

FFB crops and yields per hectare for the years from 2004 to 2008 are shown in the "Key statistics" section of this annual report. The crop out-turn for 2008 amounted to 450,906 tonnes, 7.1 per cent ahead of the budgeted crop of 421,000 tonnes and an increase of 14.7 per cent on the FFB crop for 2007 of 393,217 tonnes. Yield per hectare for 2008 was 27.3 tonnes compared with 29.6

tonnes in 2007. The reduction reflects the fact that 3,189 hectares of previously immature areas were brought into harvesting in 2008 and initially yielded 17.6 tonnes per hectare as compared with the average yield for fully mature areas of 28.9 tonnes per hectare.

Rainfall for 2008 averaged 3,504 mm across the group's operations, down on the 4,413 mm of the previous year but nevertheless wholly satisfactory for oil palm cultivation, particularly as the rainfall was well distributed.

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

The FFB crop for 2009 has been budgeted at 486,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). This crop is a little below the level that would result if palms of an equivalent age achieved similar yields per hectare in 2009 to those of 2008. Crops to end March 2009 were in line with budget.

External purchases of FFB from smallholders in 2008 totalled 6,460 tonnes (2007: 2,767 tonnes). Based on the combination of the group's own FFB production and externally purchased FFB, the CPO and palm kernel extraction rates for the year amounted to, respectively, 23.1 per cent and 4.6 per cent (2007: 23.5 per cent and 4.0 per cent).

The decline in the CPO extraction rate is attributed by the directors to a combination of overcast conditions during part of the year (reducing the photosynthesis upon which oil formation partly depends) and pressure on harvesting standards. The group is implementing measures designed to reduce harvester turnover and make it easier to recruit additional harvesters. It is hoped that these measures will restore the CPO extraction rate to levels closer to the group's target CPO extraction rate (which is being retained) of 24 per cent.

The improvement in the palm kernel extraction rate (which is measured as the percentage by weight of palm kernels extracted from the FFB crop for the year) reflected successful modification of the palm kernel extraction process to improve nut cracking efficiency. The result achieved was comfortably ahead of the target palm kernel extraction rate of 4.0 per cent set by the group.

CPKO production for 2008 (again based on the combination of the group's own FFB production and externally purchased FFB) amounted to 8,190 tonnes (2007: 6,414 tonnes). This reflected a CPKO extraction rate for the year (being measured as the percentage by weight of CPKO extracted from the palm kernels processed by the palm kernel crushing plant during the year) of 39.3 per cent (2007: 41.0 per cent). Modifications to the kernel crushing plant are currently being made and it is hoped that these will increase the CPKO extraction rates towards the group's target of 42.0 per cent.

Revenues and markets

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

The outlook for CPO prices must be considered against the background of consumption of vegetable and animal oils and fats. According to Oil World, worldwide consumption of vegetable and animal oils and fats increased by 3.9 per cent to 158.1 million tonnes in the year to 30 September 2008. The annual increase of 5.9 million tonnes that this represented was only marginally below the average annual growth in consumption of some 7.0 million tonnes in the preceding three year period, despite the historically high prices for oils and fats during the period.

Major uses of vegetable and animal oils and fats have conventionally been for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Vegetable oils can also be used to provide bio-fuels; bio-diesel use, in particular, has accounted for the significantly higher year on year increase in consumption of vegetable oils that has been seen in each of the last four years.

According to Oil World, CPO production in the year to 30 September 2008 totalled 42.4 million tonnes, representing some 26.7 per cent of the total world production of the 17 major vegetable and animal oils and fats for the same period of 158.9 million tonnes. The principal competitors of CPO are the oils from the annual oilseed crops, the most significant of which are soybean, oilseed rape and sunflower. As annual crops, the production from these three oilseed crops can be rapidly adjusted in response to market surpluses or shortfalls within the vegetable oils and fats complex.

The directors believe that levels of annual oilseed production will ultimately be driven by fundamental market factors. It is however possible that normal market mechanisms may, for a time at least, be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there has been action by governments attempting to reduce dependence on fossil fuels. This 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. Such action increased returns for farmers from growing crops such as corn and meant that land, which, absent government intervention, might have been expected to be used for growing annual oilseed crops has been used for other purposes. With surfacing concerns as to security of future food supplies and recent declines in the price of petroleum oil, government policies in relation to bio-fuel are now being modified and the distortions that this has caused are already reducing.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown in the “Key statistics” section of this annual report. The monthly average price over the ten years has moved between a high of $1,249 per tonne and a low of $234 per tonne. The monthly average price over the ten years as a whole has been $497 per tonne.

During 2008, the CPO price, spot CIF Rotterdam, rose from an opening level of some $950 per tonne to a high in early March of just under $1,400. It then declined steadily to $705 per tonne at the end of September, fell

sharply during October to a low of $435 per tonne and then recovered slightly to a closing level at the end of the year of $525 per tonne. The average price for the year was $939 per tonne (2007: $780 per tonne). The early months of 2009 have seen the recovery in prices continue and the CPO price, CIF Rotterdam, currently stands at $780 per tonne.

The directors have previously recorded their belief that the prices of all commodities are inherently cyclical and they have no reason to modify that view. High prices have led to lower prices and the directors are confident that the converse will also be the case. Whilst it appears likely that bio-fuels will prove a less significant component of future vegetable oil consumption than was at one time expected, the fundamentals underlying demand for vegetable oils for conventional uses have not changed. World population continues to grow and, in the key markets of India and China, lower prices are likely to stimulate demand which will also continue to increase with economic growth. Ultimately, lower vegetable oil prices may be expected to lead to reduced plantings of the annual oilseed crops of soybean, oilseed rape and sunflower, the rate of growth in world vegetable oil production will then reduce and the supply demand balance will tighten.

For the moment, vegetable oil prices appear to have decoupled from the price of petroleum oil and the modest recovery in the vegetable oil complex of recent months is being driven by good demand for conventional uses of vegetable oil assisted by restocking in the major consuming countries which had reduced stocks in the immediate aftermath of the international financial crisis. An effect of this has been a significant reduction in CPO stocks at origin in Malaysia and Indonesia from the levels reached in the final quarter of 2008. Industry forecasters are predicting some slowdown in the rate of growth in CPO supply in 2009 in part reflecting increased replanting of older areas which are becoming uneconomic to harvest at current CPO prices and for which the Malaysian government is currently providing financial incentives. Reports indicate that US farmers are switching land from corn to soybean so that US soybean plantings for the current season are expected to be at a slightly higher level than for the 2008 season. This increase may be fully offset by the effects of drought on South American soybean crops which are expected to show a decline.

In short, the supply demand balance for the vegetable oil complex going forward is moderately encouraging, particularly as slower growth in demand for meat may adversely impact the economics of future soybean plantings given that revenues from soybean cultivation depend as much on sales of soya meal to the animal feed market as they do on sales of the oil component of the soybeans harvested. Within the CPO component of the complex, less readily available credit and reduced revenues are likely to lead to some slowdown in extension planting and, particularly as respects less efficient growers, reduction in fertiliser applications. This should result in some scaling back in the rate of future growth in CPO supply. In the very short term, CPO must expect to lose some market share to soya oil as a recent reduction in Indian import duties applicable to soya oil is likely to encourage some substitution of soya oil for CPO in the Indian market.

Looking further forward, even if conversion of vegetable oil to bio-fuel does not after all become a growing component of vegetable oil consumption, the ability of the energy markets rapidly to absorb significant volumes of vegetable oil over a short period should limit the negative price impact of periodic future surpluses in vegetable oil supply. If, as seems probable, petroleum oil prices in due course return to higher levels, these are again likely to provide a floor for the vegetable oil markets. Within those

markets, CPO should 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 2008, approximately 58 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 42 per cent was exported. FOB prices realised for CPO in the local market during 2008 were for the most part broadly in line with those available in the export market but, with production volumes increasing and current trading uncertainties, the group wishes to ensure that it can access the larger CPO markets available internationally when necessary. Export sales continued to be concentrated within the South East Asian region. A major component of exports goes to refineries in East Malaysia owned by one customer (a company of international standing) while local sales are restricted to a small number of regional buyers. All 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 need to develop its own policies for product quality and terms of dealing with customers.

As a general rule, all CPO produced by the group is sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO production for a forthcoming period of twelve months.

During 2008, the group delivered 12,000 tonnes of CPO under forward sale contracts dating from 2006 at the equivalent of a CIF Rotterdam price of $620 per tonne. Other forward sale contracts made in 2007 for the eighteen month period from July 2008 to December 2009 were cancelled prior to commencement of deliveries by mutual agreement with the counterparty owing to a problem of certain terms of the contracts conflicting with Indonesian regulations. The forward sales that were delivered and, more materially, the sliding scale of duty applicable during most of 2008 to exports of CPO from Indonesia together had the effect that the average US dollar price per tonne realised by the group in respect of 2008 sales of CPO, adjusted to FOB, Samarinda, was $664, not a great deal higher than the average price of the preceding year of $624.

The group currently has no forward sales of CPO. The Indonesian regulations imposing a sliding scale of export duty remain in place although the scale itself has been modified so that currently 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 $1,300 per tonne.

Sales of CPKO during 2008 were made entirely in the local Indonesian market and achieved an average premium of some $156 per tonne over the FOB price per tonne for CPO (2007: $115).

Cost base

The group's revenue costs principally comprise: direct costs of harvesting, processing and despatch; direct costs of upkeep of mature areas; estate and central overheads in Indonesia; the overheads of the UK head office; and financing costs. Whilst direct costs vary to an extent with crops harvested and the area under cultivation, the crop related component of costs is not a high proportion of the total. Therefore, for any given total area under cultivation, costs are for the most part fixed. The directors believe that the group's senior management team has the capacity to manage a larger area than is currently under cultivation and do not therefore expect that when extension planting is resumed fixed costs will increase proportionately to the area under cultivation.

Cost inflation has been a characteristic of the group's operations in recent years, but cost pressures in 2008 were very pronounced. In particular, the cost of diesel continued to increase in line with the price of petroleum oil while salary and wage costs grew significantly and fertiliser prices rose to new highs. Recent months have seen some reversals of these trends. Diesel prices have fallen with petroleum oil prices and there have been significant reductions in the costs of all fertilisers, although the cost of potash has fallen somewhat less than the costs of fertilisers providing nitrogen and phosphate. In addition, the weaker Indonesian rupiah, (currently standing at Rp10,650 against the US dollar as compared with Rp9,419 at 1 January 2008) is helping to offset the cost in US dollar terms of Indonesian wage increases and inflation in other rupiah denominated costs.

With the moderating inflation position and increasing production volumes, unit costs remain at levels that permit the group, at current CPO prices to achieve margins that, although below the very high margins of the early months of 2008 are still satisfactorily remunerative. Furthermore, the temporary scaling back of the extension planting programme is providing an opportunity for management to reconsider the efficiency of various aspects of the group's day to day operations. In particular, the group is currently reviewing the scope for savings, in FFB collection and transport arrangements, from greater mechanisation, and in road maintenance, from centralising maintenance responsibilities. A significant investment is also being made in the development of a new management information and accounting data base. It is expected that this will become operational in phases during 2010 and be fully operational for 2011.

Employees

With crops continuing to increase, the group is steadily expanding its workforce. At the end of 2008, this numbered some 6,000. Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates.

The group places considerable emphasis on welfare and remuneration structures and aims to promote a productive and stable workforce. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and creches. A trust funded by the group operates a network of primary schools across the group's estates and the group provides financial assistance to state secondary schools serving the children of the group's employees. The group runs its own health service with medical facilities in each estate village and a central hospital. The clinics and hospital are open not only to the group's employees and their dependents 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 of 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. The group promotes a policy for the creation of equal and ethnically diverse employment opportunities and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management.

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

emphasis is placed on health and safety and sustainability.

The group's continuing expansion brings with it the need regularly to enlarge the operational management team and a recruitment programme for graduates with agricultural qualifications is conducted each year. These graduates join a twelve month cadet training programme. Those successfully completing this programme, which provides a grounding in all aspects of oil palm estate management, are offered positions as assistant managers. The recruitment programme for cadets is sized each year to reflect the future management needs of the group and to allow for staff turnover.

Courses constructed and operated out of the group's own training school are targeted primarily at lower and middle management levels. The group recognises the importance of developing management skills at all levels and the scope of the group's ongoing training programme includes the external provision of management development courses for the group's senior Indonesian management.

Action was taken during 2008 to provide remuneration incentives to employees to discourage them from switching to other employers. The response to this has been positive and with competition for competent estate management and experienced workers reducing as plans for new oil palm development are scaled back to reflect current financing realities, the group hopes that it can continue successfully to protect its significant investment in its employees and their skills.

Sustainability

Smallholder programmes

The group continues to support individuals in the local communities in areas adjacent to the group's operations in establishing their own smallholdings of oil palm. The model for this support is that each individual smallholder cultivates oil palm on his own two hectare plot with the group providing technical advice through a management team dedicated to the smallholder development programme. Fertilisers and chemicals are supplied by the group to individual smallholders on deferred terms but on the basis that when smallholder 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 2008, some 1,370 hectares of smallholder plantings had been established following this model across 12 local villages.

Although interest from the local village communities in the cultivation of oil palm as a secure long term livelihood increases year by year, it has become clear that the logistical constraints of dealing with a large number individuals, each of whom operates on a relatively small area, will inevitably limit the rate at which the group can expand the smallholdings that it supports on the model just described. Moreover, the ethnic background of the communities living in the vicinity of the group's operations varies materially from village to village, and the lifestyle and culture of some villages are not conducive to development of oil palm by way of small individual holdings.

The group is committed to a material expansion of the oil palm areas cultivated by the local village communities and is keen to provide mechanisms by which all such communities can benefit from the economic opportunities afforded by oil palm development. To this end, the group, in addition to its support for the individual smallholder model, will now also support local village cooperatives in developing oil palm on larger areas ranging from 100 to 1,000 hectares or more. Under this new model, the land areas for development will be provided by the cooperatives but the development will be managed by the

group for a fee. The costs of development will be 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 will meet their debt service obligations in respect of the external funding.

To date, the group has developed slightly in excess of 300 hectares of oil palm for local village cooperatives but it is now actively negotiating schemes to increase this hectarage very materially. The areas developed so far have been funded by the group under compensation agreements reached with villages in connection with the titling of land allocations held by the group. It is intended that the further schemes for cooperative developments now being pursued should be funded with local bank finance provided pursuant to an Indonesian government scheme designed to encourage the expansion of oil palm plantings under village cooperative ownership. Negotiations with the East Kalimantan development bank for the provision of funding on this basis are currently in hand.

Whilst 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.

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 plantation operations. To this end, the group has established a separate department to liaise with the local communities and to formulate and manage the group's community development initiatives. The department is headquartered in the group's offices in Samarinda but maintains specialist management teams resident on the sites upon which the group operates. These teams are the primary interface between the group and the local communities and, in addition to their general duty of liaison, have several specific functions.

When new areas are allocated to the group, the community development teams have an important role in the titling process. They oversee 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. They explain to the local communities the implications of oil palm development and seek to identify and meet local concerns so that the free, prior and informed consent of local people is obtained for new developments.

The community development teams also engage in regular discussion with government at local and central level in order to identify and develop areas where the local communities can obtain government assistance and funding for community development projects. It is hoped that, with the group’s help, local communities can be made fully aware of the range of government rural assistance programmes available to them and that the group can act as a catalyst in helping local communities to avail themselves of the benefits that such programmes can bring.

Finally, each community development team, through its day to day presence on the ground and regular visits to the local communities, encourages the establishment of small scale self-help projects by individual groups of villagers. The proximity of the sizable workforce resident on the group’s estates provides a readily accessible local

market for produce arising from such projects and permits the group, when appropriate, to support projects with offtake guarantees. When needed, the group also provides financing assistance. To date the group has been involved with over 50 self-help projects, most of which are continuing. Project activities have included chicken and duck rearing, fish farming and fruit, vegetable and rice cultivation.

Conservation

From the outset, the group has planned the development of its East Kalimantan operations on the basis of environmental impact assessments and advice provided by independent experts. It continues to do so. Within the areas already developed, over 6,000 hectares have been retained as conservation reserves with the aim of preserving or enhancing landscape level bio-diversity. 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.

As with community development, the group has established a separate department under the leadership of an internationally recognised conservation expert to implement the group's conservation objectives, which are:

- within the group's areas of operations to compile a detailed record of the physical attributes of the landscape, its bio-diversity resources and the status and value of each to both international and local communities;
- to minimise or eliminate adverse impacts from the group's plantations upon soil, water and biological communities;
- to achieve bio-diversity conservation through education of local communities, protection and sustainable use; and
- to seek conservation outcomes that accrue long term benefit to local communities.

The conservation department augments its effectiveness through partnerships with local bodies and international non governmental organisations. The department was active during 2008 in identifying and cataloguing flora and fauna within the existing conservation reserves and in advising on the delineation of conservation reserves within the new land areas allocated to the group. In particular the department was able to identify a riverine zone within the CDM areas that is home to two endangered species of crocodile, the *Tomistoma schlegelii* and *Crocodylus siamensis*, that it is important to protect. A joint study of aquatic fauna conducted with the Indonesian Institute for Sciences was successful in indentifying three new varieties of previously unknown fish (*Leiocassis new sp*, *Pangio new sp* and *Rasbora new sp*).

The directors believe that there is scope to extend the activities of the conservation department beyond the immediate areas of the group's operations into the wider Belayan river basin and that to do so would extend the conservation gains that the department can hope to deliver. To this end the group is currently considering the conversion of the conservation department into a charitable foundation which the group would support but which would also be in a position to accept donations from, and work with, third parties.

Sustainable practices

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

The group actively promotes integrated pest management throughout its operations. Wherever possible, natural predators are preferred to pesticides for pest control. Selective varieties of flowering plants have been planted throughout the group's estates to promote the population of wasps, the natural predators of bagworm and caterpillars.

All processing waste is recycled. Oil mill effluent is treated in effluent ponds and after treatment is distributed within the oil palm areas as a substitute for inorganic fertiliser. Empty fruit bunches are similarly distributed. Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. This steam is then used to drive steam turbines for generating electricity.

The group is giving continuing attention to identifying ways of reducing its carbon footprint. Measures already taken include improvements to the distribution of surplus electric power generated in the group's oil mills reducing the need to run diesel generators to supply power to estate villages. The group is currently evaluating a possible project to increase the surplus power available from the milling process by passing mill effluent through an anaerobic digestion process, capturing the methane released during digestion and utilising such methane to drive gas powered generators. This would not only further reduce the group's use of diesel for power generation but would also substantially eliminate current methane emissions from effluent ponds. The group hopes that the project may be eligible for carbon credits under the Clean Development Mechanism which may make it easier to justify the capital commitment that would be involved.

In line with its policy of continuous improvement, the group employs an international firm of consultants to perform an annual management performance review covering production and environmental practices and social sustainability. Conclusions and recommendations are carefully reviewed by senior operating management and the group's managing director and appropriate responsive action is taken.

Accreditation

REA Kaltim has recently been awarded ISO 14001 certification in respect of its two mills and kernel crushing plant and expects to receive certification for its six estate units in the second half of 2009.

The group is a member of the Roundtable on Sustainable Palm Oil ("RSPO") which has produced a set of eight principles and 39 criteria for the sustainable production of palm oil. During 2008, work was completed by RSPO on establishing national interpretations of these principles and criteria for each of the major CPO producer countries to ensure consistency with each country's legal system. Accordingly, individual companies can now obtain RSPO accreditation and the group is working towards doing so.

Whilst the directors believe that the group's operational practices already meet the requirements of RSPO, accreditation will require that such operational practices are embedded in formal systems and are subject to controls that are auditable. The group, with assistance from external consultants, has been actively engaged in formalising such systems and controls and expects to be in a position to seek RSPO accreditation in 2010, after the current ISO 14001 certification process has been completed.

As a substantial Indonesian plantation operator, REA Kaltim is subject to periodic environmental appraisal pursuant to a programme managed by the Ministry of Environment and known as "PROPER". Results of PROPER evaluations are marked by the presentation of coloured flags ranging from black for the poorest assessment to gold for the best. During 2008, REA Kaltim was one of only two plantation companies

throughout Indonesia to be presented with a green flag, the highest level of flag so far awarded under the PROPER programme.

New initiative

Against the background that it is well established that the province of East Kalimantan has vast coal deposits and that certain of the local investors in the group's East Kalimantan operations were encouraging the group to consider joining them in developing coal concessions available to such local investors, the directors concluded, in late 2007, that the group should explore opportunities in coal mining. Accordingly, in March 2008 the group opened an office in Jakarta to pursue such opportunities and, the directors having decided that such pursuit should be kept quite separate from the group's plantation operations, recruited a small team of staff to manage the office and evaluate available opportunities.

With the office in place and with a view to obtaining a better understanding of the Indonesian coal market and defraying start up overheads, the group then took its first steps into the coal sector by entering into an arrangement for a limited period (now expired) to source coal from Kalimantan and supply it to a power station in Sumatra. With the experience gained from this initial activity, and with assistance from the group's long standing connections in East Kalimantan, the group then felt more comfortable in progressing from coal trading to direct investment in open cast coal mining.

This led to the completion by the group in the second half of 2008 of the acquisition of rights in respect of two adjoining coal concessions, the first, Liburdinding, covering an area of some 1,000 hectares and the second, Muser, some 2,000 hectares. The concessions are located in the southern part of East Kalimantan, close to an existing major coal mining operation and some 40 kilometres from existing river port facilities. From these facilities, coal can be loaded into 5,500 tonne barges for transhipment over a short distance to a sea anchorage capable of accommodating cape size vessels.

The Liburdinding area has Pamaluan coal formations with typical gross calorific values between 5,600 and 6,000 kcal/kg and the Muser area has Tanjung coal formations with typical gross calorific values between 6,000 and 7,000 kcal/kg. Surveys using the 2D resistivity method have been conducted by an independent firm of geologists in Jakarta on both Liburdinding and Muser areas and these indicate coal reserves of 14.7 million and 17.6 million tonnes respectively. Drilling work has been undertaken to assess further the characteristics of the coal deposits and these have indicated gross calorific values of between 5,800 and 6,200 kcal/kg in the case of the Liburdinding deposits and between 7,000 and 7,200 kcal/kg in the case of the Muser deposits. The group is commissioning a further assessment of coal reserves in accordance with the rules of the Australasian Joint Ore Reserves Committee.

Regulations governing coal mining in Indonesia currently restrict the mining activities in which foreign investors may be involved and are complicated by the recent enactment of new mining legislation in respect of which implementing regulations have still to be published.

As currently structured, the group's interest in Liburdinding and Muser will be held through PT KCC Mining Services Indonesia ("KCCMSI") an Indonesian foreign investment company of which the establishment has been approved by the Indonesian investment co-ordinating board and of which the incorporation is currently in process. KCCMSI will be owned as to 95 per cent by the group and 5 per cent by a local investor who, with members of his family, has already acquired or established the two local Indonesian companies (the "licence companies") holding the mining licences in respect of the Liburdinding and Muser concessions.

Pursuant to arrangements agreed between the group and the local investor, the group has provided or will provide loan funding to meet substantially all of the costs of obtaining and developing the concessions upon terms that all coal produced by the licence companies will be sold to KCCMSI on a basis that reflects the group's funding commitments, the costs to the licence companies of that funding and the group's involvement in the development and operation of the concessions. It has also been agreed that the group will have the right to require the combination of the licence companies and KCCMSI on appropriate terms should Indonesian regulations in future permit this and, further, that all of the existing arrangements between the group and the local investor may be revised on a basis consistent with their present economic intent should the implementing regulations in respect of the new mining legislation, when published, make such revision expedient.

Having acquired its rights in respect of the Liburdinding concession, the group held discussions with two different parties who indicated interest in acquiring the coal from that concession upon terms that would have effectively relieved the group of any further material capital commitment or operating risk in exchange for a cash royalty. However, such discussions proved abortive. Accordingly, the group has concluded that the licence companies should themselves operate both the Liburdinding and Muser concessions and they are seeking to bring both concessions into production as soon as possible.

Detailed mining designs for the Liburdinding concession have now been completed and work has started on mining designs for the Muser area. The exploration licence held in respect of Liburdinding has been converted to an exploitation licence and the conversion of the exploration licence in respect of Muser is at an advanced stage. A transport and selling licence has been granted for Liburdinding and will be processed for Muser once the exploitation licence has been granted.

Necessary work on upgrading roads from the concession areas to the port facility has been slightly delayed by heavy rains but has now been completed and contractors appointed to commence mining operations on Liburdinding are now on site. It is hoped that production from this concession will start within the second quarter of 2009 and will be followed within a short period by production from Muser. A small team of experienced managers has been recruited to oversee the mining operations.

The group is giving careful attention to the potential environmental consequences of the coal operations and intends that the operations should be conducted in accordance with international standards of best practice. In particular, the group will seek to establish health and safety procedures to protect and safeguard the welfare of all persons involved with the mining operations, to engage positively with employees, contractors and local communities, to ensure the proper management of waste and to reinstate, in so far as reasonably practicable, land areas affected by mining to their original condition upon completion of mining operations.

It is expected that coal production will be sold into both local and export markets. Local demand for coal is expected to increase significantly in the coming months as a result of the commissioning of a number of new coal fired power stations in Indonesia.

Pending validation of theoretical plans by actual operating experience, the directors remain cautious as to the returns achievable from the group's new coal interests, particularly given that coal prices have fallen significantly over the past six months. Nevertheless, the group's internal projections continue to indicate that margins achievable even at current coal prices will justify the

investment made which amounted at 31 December 2008 to $5.4 million.

Finances

Accounting policies

The group continues to report in accordance with International Financial Reporting Standards ("IFRS"). Following a decision taken in 2007 that the group should adopt the US dollar (which is regarded as the functional currency of the group) as its presentational currency, the accompanying consolidated financial statements for the year ended 31 December 2008 are presented in US dollars (as were the consolidated financial statements for the preceding year).

The accounting policies applied under IFRS are set out in the "Accounting policies (group)" section of this annual report. The accounting policy relating to biological assets (comprising oil palm plantings and nurseries) is of particular importance. Such assets are not depreciated but are instead restated at fair value at each reporting date and the movement on valuation over the reporting period, after adjustment for additions and disposals, is taken to income. Deferred tax is provided or credited as appropriate in respect of each such movement.

As in previous years, the fair value of the biological assets at 31 December 2008 has been derived by the directors on a discounted cash flow basis by reference to the FFB expected to be harvested from the group's oil palms over the full remaining productive life of the palms and to an estimated profit margin per tonne of FFB so harvested. This estimated unit profit margin is based on current costs and an estimated produce value for transfer to mill derived from a twenty year average of historic CPO prices but is buffered to restrict any implied change in margin in contradiction of the trend in current margins. The 20 year average CPO price, FOB port of Samarinda and net of Indonesian export duty, to 31 December 2008 amounted to $431 per tonne as compared with the 20 year average to 31 December 2007 of $414 per tonne. This implies an increase in the estimated unit value of FFB for transfer to mill from 2007 to 2008 that is less than the increase in unit current costs from 2007 to 2008. However, the unit profit margin per tonne of FFB harvested that is currently being achieved is greater than the estimated unit profit margin applied in valuing the biological assets as at 31 December 2007. Accordingly, the same unit profit margin as that assumed as at 31 December 2007 (namely $50 per tonne of FFB) has been applied in valuing the biological assets as at 31 December 2008.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2008 were 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies (31 December 2007: respectively, 17.5 per cent and 19 per cent). The directors believe that the risks of successfully harvesting FFB projected to be produced from newly developed areas are significantly greater than those of harvesting the projected FFB crops from established estates. They consider it appropriate to reflect this risk differential by applying a discount rate of 19 per cent to newly established areas, reducing this to 17.5 per cent as an area becomes well established and then further to 16 per cent when plantings in an established area become predominantly mature. The discount rates used at 31 December 2008 and 31 December 2007 were derived accordingly.

The directors recognise that the IFRS accounting policy in relation to biological assets does have theoretical merits in charging each year to income a proper measure of capital consumed (so that, for example, a fair distinction is drawn each year between the cost of the shortening life expectancy of younger plantings still capable of many years of cropping and that of older plantings nearing the end of their productive lives). It does, however, concern

the directors that no estimate of fair value can ever be completely accurate (particularly in a business in which selling prices and costs are subject to very material fluctuations). Moreover, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on results. The biological assets are recorded in the group balance sheet at 31 December 2008 at $180 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation of $50 per tonne of FFB would increase or reduce the valuation by approximately $19 million. Other sensitivities to assumptions are disclosed in note 13 to the consolidated financial statements.

Accounting reference date

It was noted in the company's 2007 annual report that the directors were contemplating a change in the company's accounting reference date from 31 December to 28 February. A pre-requisite of such a change was the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V. and this was duly obtained in August 2008. Subsequent discussions with the group's Indonesian professional advisers have indicated that negative Indonesian fiscal consequences would be likely if the company's Indonesian subsidiaries were to change their reporting periods so that these remained co-terminous with those of the company following a change in the latter's accounting reference date. Accordingly, the directors have decided that the company should retain its existing accounting reference date of 31 December.

Group results

Group operating profit for 2008 amounted to $40.6 million against $49.4 million in 2007. The result reflected a negative swing in IFRS fair value adjustments between 2007 and 2008 of $20.5 million with net losses on revaluation of biological assets and agricultural produce inventory of, respectively, $2.7 million and $4.2 million against net gains of $8.0 million and $5.6 million in the prior year. Significant other differences between the two years were a $22.0 million increase in revenue ($79.6 million against $57.6 million) and a $12.8 million increase in cost of sales.

The net loss on the revaluation of the biological assets at 31 December 2008 was principally caused by the decision taken in October 2008, as referred to under "Land development" in "Operations" above, to suspend extension planting. This meant that the hectarage developed or in course of development at 31 December 2008 was lower than it would otherwise have been and that the FFB crops projected for the purposes of the revaluation had to be reduced commensurately. The revaluation benefited from two factors: first, a reduction in the discount rate applied in respect of the REA Kaltim biological assets (from 17.5 per cent to 16 per cent), designed to reflect the reduced risk, as REA Kaltim plantings mature, of failing to harvest projected REA Kaltim crops; and, secondly, an increase as compared with 2007 in the per hectare yields projected for newly mature areas reflecting the group's actual yield experience of recent years. However, the positive impact of these two factors did not fully offset the negative impact of the planting suspension.

There was little change in the volume of the group's agricultural produce inventory over 2008 but the IFRS requirement to value this inventory at fair market value meant that the movement between opening and closing valuations showed a loss as a result of the fall in CPO prices over 2008. This contrasted with the preceding year when an increase in the volume of produce inventory combined with a rise in CPO prices to produce a significant gain under the same caption.

The reported increases in revenue and cost of sales for 2008 were the result of the higher production achieved combined, as respects revenue, with higher selling prices and, as respects cost of sales, with inflation in most operating input costs. In particular, prices for diesel and fertiliser moved to new highs while labour costs rose in line with increases in the general cost of living in Indonesia. The increase in cost of sales also reflected the costs of upkeeping an additional 3,189 hectares of plantings that were classified as mature from the start of 2008.

Group profit before tax for 2008 amounted to $36.3 million against $47.0 million in 2007. The movement substantially mirrored that in operating profit but also reflected higher finance costs and lower investment revenues. The former was principally caused by a higher average level of group indebtedness during the year (the result of the further issue of sterling notes in August 2008) and the latter by the lower rates of interest available during the year on cash deposits.

Before deduction of the interest component added to biological assets, interest and similar charges payable in 2008 amounted to $10.0 million (2007: $9.2 million). Interest cover for 2008 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, and biological gain to interest and similar charges payable) was 4.7 (2007: 5.1).

During 2008, reductions were announced in future rates of Indonesian corporation tax. This has permitted a reduction in the provision for deferred tax at 31 December 2008 with a consequential credit to income account. Offsetting this, the amount previously provided for tax has been increased to provide in full for an Indonesian assessment of tax on REA Kaltim's 2006 profits at a higher level than was originally expected although significant elements of the assessment are disputed and a material recovery of the amounts paid on account is expected. The net result is still a reduced rate of tax charge in 2008 as compared with 2007.

At the after tax level, profit for the year for 2008 was $25.8 million against $32.0 million in 2007 while profit attributable to ordinary shareholders was $23.8 million against $29.5 million. Fully diluted earnings per share amounted to US 71.5 cents (2007: US 89.6 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2008 was 26.0 per cent against 42.5 per cent for 2007.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2008 were duly paid. Absent an unforeseen material adverse change in the group's circumstances, the directors intend that all future semi-annual dividends on the preference shares should be paid as they fall due. Dividends totalling 3p per ordinary share have been paid in respect of 2008 (2007: 2p per ordinary share). These comprised a first interim dividend of 1.5p per ordinary share paid on 26 September 2008 and a second interim dividend in lieu of final of 1.5p per ordinary share paid on 30 January 2009. In addition, the company made a capitalisation issue to ordinary shareholders of 1,302,954 new preference shares on the basis of one new preference share for every 25 ordinary shares held on 24 September 2008.

The group retains ambitious plans for continued extension planting of oil palms. This will require substantial investment. Moreover, the uncertainties of the current world economic situation and the possibility that CPO prices may fall back from current levels dictate that the group should be careful to husband its cash

resources. While this remains the case, the directors will inevitably feel constrained as to the rate at which they can prudently declare, or recommend the payment of, future ordinary dividends.

The directors do appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. The directors have previously stated their intention that any new level of ordinary dividend set in respect of any given year should be sustainable in subsequent years and they expect that this will prove the case with the level of total ordinary dividend set in respect of 2008. Under normal circumstances, the directors would hope that the prospective crop increases of coming years wll permit a progressive ordinary dividend policy albeit that the rate of progression is likely to be steady rather than dramatic.

Whilst the directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in both 2007 and 2008, 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 cash dividends, the current state of markets for fixed return securities of smaller listed companies may make it impractical to make another such issue in 2009.

Capital structure

The group is financed by a combination of debt and equity (which under IFRS includes minority interests and the company's preference capital). Total equity less minority interests at 31 December 2008 amounted to $162.0 million as compared with $147.8 million at 31 December 2007. Minority interests amounted at those dates to, respectively, $580,000 and $877,000.

During the year, a further £28,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") were created of which £15,000,000 nominal were issued for cash at a subscription price of 99.8682 per cent of par by REA Finance B.V. ("REA Finance"), a wholly owned subsidiary of the company. The effect of this issue was to increase the nominal amount of sterling notes in issue to £37,000,000 and the prospective total size of the eventual sterling note issue to £50,000,000 although under current market conditions an early issue of the unissued balance of £13,000,000 nominal of sterling notes appears unlikely.

Following the latest issue of sterling notes, group indebtedness at 31 December 2008 amounted to $108.3 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $12.9 million, £37 million nominal of sterling notes (carrying value: $50.2 million), $15.4 million in respect of the hedge of the principal amount of the sterling notes as described below, $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.6 million) and other short term indebtedness (including obligations under finance leases) of $0.2 million. Against this indebtedness, at 31 December 2008 the group held cash and cash equivalents of $30.3 million.

The sterling notes are secured principally on unsecured loans made by REA Finance to REA Kaltim and SYB, are guaranteed by the company and are repayable by three equal annual instalments commencing 31 December 2015. The dollar notes are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012.

Borrowings under the Indonesian consortium loan facility are secured on the assets of REA Kaltim and are guaranteed by the company. The outstanding balance

under the facility at 31 December 2008 was repayable as follows: 2009 - $10.7 million and 2010 - $2.2 million. Following recent discussions with the banks providing the facility, it has been agreed that the terms of the facility will be reconstituted so as to provide the group going forward with an $11.75 million term loan repayable over five years and a revolving working capital facility, renewable annually, of $4.75 million.

The group has entered into long term sterling US dollar debt swaps to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but, in the case of interest only, as respects interest payments falling due up to 31 December 2015). The net liability at 31 December 2008 on restatement of these hedging swaps at fair value was $26.5 million reflecting the fall in sterling against the US dollar since the swaps were contracted and substantially matching the benefit enjoyed by the group from the reduction in the dollar liability in respect of the sterling notes over the same period as a result of the same fall.

As referred to under "Dividends" above, 1,302,954 new preference shares were issued in September 2008 by way of capitalisation of share premium account pursuant to a capitalisation issue to ordinary shareholders.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents reduced slightly over 2008 from $34.2 million to $30.3 million.

Although operating profit for 2008 at $40.6 million was lower than the $49.4 million reported for 2007, adjusting for the non cash components of operating profit (and in particular the movements on revaluation of biological assets) operating cash flow before movements in working capital amounted to $50.2 million in 2008 against $38.0 million in the preceding year. A release of working capital of $0.7 million in 2008 against an absorption of $3.2 million in 2007 meant that cash generated from operations in 2008 at $50.9 million was significantly ahead of the $34.8 million generated in 2007. However, a higher interest cost ($5.5 million against $3.5 million) coupled with a very material increase in tax paid ($13.1 million against $3.2 million) following the exhaustion during 2007 of tax losses brought forward from earlier years, reduced the difference between the two years so that net cash from operating activities for 2008 was $4.1 million ahead of 2007 at $32.3 million against $28.2 million.

Overall, during the two year period to 31 December 2008, there was an increase in working capital of $3.9 million. This was principally due to the increase in the size of the group's operational activities. The reported higher increase of $8.8 million reported for 2007 and subsequent release of $4.9 million for 2008 may be attributed to the timing of payments and receipts over year ends and, in particular, to timing in relation to produce shipments and payments for such shipments.

Investing activities for 2008 involved a net outflow of $48.3 million (2007: $31.8 million). This represented new investment totalling $49.6 million (2007: $33.6 million), offset by inflows from interest and other items of $1.3 million (2007: $1.8 million). The new investment comprised expenditure on further development of the group's plantations of $39.8 million (2007: $29.8 million), expenditure on acquisition of land rights and the purchase of PBJ of $4.4 million (2007: acquisition of land rights - $3.8 million) and expenditure on the new coal initiative (including the acquisition of coal concession rights) of $5.4 million (2007: $nil).

The net outflow in respect of investing activities was principally financed by a combination of net cash flow

from operating activities and net cash flow from financing activities. The latter produced a net inflow of $19.9 million (2007: negligible effect). This was made up of an inflow from the issue of further sterling notes of $26.9 million (2007: issue of sterling notes and equity - $28.6 million), net repayments of bank debt and finance lease obligations of $3.1 million (2007: $26.1 million) and an outflow in respect of dividend payments of $3.9 million (2007: $3.5 million).

Liquidity and financing adequacy

As noted under "Group cash flows" above, the group held cash and cash equivalents at 31 December 2008 of $30.3 million. In addition, the group had at that date an undrawn balance of $4 million under the Indonesian consortium loan facility available for drawing until 7 September 2009 and, to the extent drawn, repayable in 2010. The recent agreement to reconstitute the Indonesian consortium loan facility, as referred to under "Capital structure" above, will replace the existing $4 million undrawn balance under the facility with a working capital line of $4.8 million that will be subject to annual renewal.

At current CPO prices and with the agreement to reconstitute the Indonesian consortium loan facility, the group could expect that, excluding expenditure on new extension planting (but allowing for upkeep of existing immature areas), cash flows from operations for 2009 would comfortably exceed the amounts required to fund planned capital and development expenditure and debt service. As indicated under "Land allocations and development" above, the directors have recently decided that extension planting should be resumed but on the basis that such resumption will be at a level such that the prospective costs of development can reasonably be expected to leave the group with an appropriate cash reserve against further weakness in CPO prices.

The group may seek further debt funding to permit the group to proceed with a higher level of extension planting than the group could otherwise afford. However, the directors will require that any such additional debt funding is provided predominantly by way of medium term loans and will limit additional borrowings to levels that the directors are confident that the group's equity base can comfortably sustain.

The group's financing is materially dependent upon the contracts governing the sterling and dollar notes. There are no restrictions under those contracts, 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. Under the terms of the Indonesian consortium loan facility, REA Kaltim is restricted 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 to the group's funding requirement.

Financing policies

The directors believe that, in order to maximise returns to holders of the company's ordinary shares, it is essential that a proportion of the group's funding needs are met with prior charge capital. Although the company's preference capital is expensive to service, in that the preference shares entitle the holders of those shares to a cumulative annual dividend at the rate of 9 per cent of the nominal value of the shares (being £1 per share), the directors consider that the preference capital is a valuable component of the group's prior charge capital in that it provides relatively low risk permanent capital. They also believe that the company can now comfortably support

preference capital at the level at which the issued preference capital currently stands and that, if circumstances permit, the company should increase that preference capital in line with growth in the group's equity base.

As respects borrowings, the directors believe that the group's interests are best served if the group's borrowings are structured to fit the maturity profile of the assets that the borrowings are financing. Since oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors aim to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements, while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

The directors believe that the group's existing capital structure is consistent with this policy objective but recognise that planned further investment in extension planting and the inevitable shortening of the maturity profile of the group's current indebtedness that will result from the passage of time will mean that action will be required to ensure that the group's capital structure continues to meet the objective. Given current conditions in markets for listed debt securities, the directors expect that any additional debt funding obtained by the group in the near term is likely to be in the form of medium term loans provided by development institutions.

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. Net debt represented 48 per cent of total equity at 31 December 2008 against a target of 60 per cent and a level of 35 per cent at 31 December 2007. The target for 31 December 2009 is 60 per cent.

Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest at 31 December 2008 was payable on drawings under the Indonesian consortium loan facility at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate ("SIBOR"). After reconstitution of the facility, interest on amounts borrowed under the facility will continue to be payable at a floating rate equal to SIBOR plus a margin but, for so long as inter-bank markets remain disrupted, the margin will include a liquidity premium reflecting the differences between SIBOR and the lending banks' costs of funds. The margin (including liquidity premium) that would currently be applicable is 6.6 per cent per annum on the basis of full utilisation of the facility.

As a policy, the group does not hedge its exposure to floating rates but, where possible, borrows at fixed rates. A one per cent increase in the floating rate of interest payable on the drawings under the Indonesian consortium loan facility at 31 December 2008 would have resulted in an annual cost to the group of approximately $130,000.

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no material currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. 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 sufficient for its immediate Indonesian rupiah

requirements but, otherwise, to keep all cash balances in US dollars.

Risks and uncertainties

Because the group's new coal mining initiative is still at an embryonic stage, the risks and uncertainties of that initiative are considered by the directors to be material to the group only as respects the risk that the initiative may fail in which event, in a worst case, the capital so far invested in the initiative of some $5 million may be lost. All other risks and uncertainties relating to the group's activities that the directors' consider are, or may be, material relate to the group's established East Kalimantan agricultural operations. These are as follows:

Climatic factors

Although the group's estate 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. 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.

Agricultural factors

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

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

The group has bulk storage facilities within its main area of 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 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.

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 expect shortages in the availability of such inputs, should such shortages occur over any extended period the group's operations could be materially disrupted. Equally, increases in input costs would be likely to reduce profit margins.

Many of the group's operational and financial controls rely, in part, on the group's management systems. These include computerised systems. Any damage or failure of such computerised systems could have a deleterious effect on the group.

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

Produce prices

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

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although, as noted under “Revenues and markets” in “Operations” above, the directors believe that such swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame.

In the past, in times of very high CPO prices, the Indonesian authorities have for short periods imposed either restrictions on the export of CPO and CPKO or very high duties on export sales of such oil. The directors believe that such measures are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia and to the Indonesian economy as a whole (because CPO is an important component of Indonesia's US dollar earning exports). The directors are thus hopeful that such measures will not be repeated and were encouraged that the significant rise in CPO and CPKO prices during 2007 and the early months of 2008 did not lead to a re-imposition of such restrictions or imposts. Instead, the Indonesian government continued to allow the free export of CPO and CPKO but introduced a sliding scale of duties on CPO and CPKO exports. Furthermore, the starting point for this sliding scale was set at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil.

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

Expansion

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

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

Currency

CPO and CPKO are essentially US dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's oil palm operations are effectively US dollar denominated. All of the group's borrowings other than the sterling notes are also US dollar denominated and the group has entered into a sterling US dollar debt swap to hedge the sterling notes. A substantial component of the group's costs (including fertiliser and machinery inputs) is US 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 US dollar, negatively impact margins in US 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.

Environmental practices

The group's existing East Kalimantan 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 and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

The group is committed to sustainable oil palm development and takes great care to follow best practice on environmental issues. An environmental master plan was constructed at the start of the project using independent environmental experts 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 extensions 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 supports the principles and criteria established by RSPO and is working towards obtaining RSPO accreditation.

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation) could have a negative impact on the group's activities. Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions.

Land in East Kalimantan held by the group is held subject to the satisfaction by the group of various continuing conditions, including conditions requiring the group to promote smallholder developments of oil palm.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence. In recent years, there have been occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. However, as noted under "The Indonesian context" in "Overview" above, during 2008 Indonesia remained stable and the Indonesian economy continued to grow.

Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and has never, since the inception of the East Kalimantan operations, been adversely affected by security problems.
Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles granted to the group, impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Local relations

The operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in its area of operations in East Kalimantan.

Whilst the group does have employees in Indonesia from outside East Kalimantan, care has always been taken to give priority to applications for employment from members of the local population. Moreover, local contractors used by the group provide employment opportunities for residents of surrounding villages and such residents also act as suppliers to the group and its employees. The directors believe that, as a result, the group's operations have been a source of increased prosperity to the surrounding villages and that the group has reasonable relations with those villages. The group has made progress in recent years in assisting the surrounding villages in establishing their own smallholdings of oil palm and it is hoped that this, together with the other initiatives described under "Community development" in "Sustainability" above, will assist in developing the group's relationships with the local population.

The group's operations are established in a relatively remote and sparsely populated area. The operational areas were acquired with the knowledge and support of the local authorities and development has been kept wholly within the areas in respect of which the group has obtained the required development permits. These areas are comprised of government owned land which was for the most part unoccupied prior to the group's arrival. However, some small areas of land were previously used by local villagers for the cultivation of crops and, accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.

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

programme or operations generally but there is a continuing risk that they could do so.

Other relationships

The group is materially dependent upon its staff and employees and endeavours to manage this dependence as detailed under “Employees” in “Operations” above.

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

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2009

Directors

Richard Robinow
Chairman (63)

Was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, has been involved for over 25 years in the plantation industry. Non-executive but devotes a significant proportion of his working time to the affairs of the group, dealing principally with matters of strategy and finance. Chairman of M P Evans Group plc and a director of SA Sipef NV (a Belgian listed plantation company).

John Oakley
Managing director (60)

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

David Blackett
Independent non-executive director (58)

Appointed to the board in July 2008 and subsequently appointed chairman of the audit and remuneration committees. A qualified chartered accountant with over 25 years experience working in South East Asia, culminating, after a career in international merchant banking, in the chairmanship of AT&T Capital Inc. A director of South China Holdings Limited, listed on the Hong Kong Stock Exchange.

John Green-Armytage
Independent non-executive director (63)

Was a non-executive director from 1984 to 1994 and rejoined the board in a non-executive capacity in 1997. Formerly chairman of the audit and remuneration committees. After a career in investment banking, moved to become managing director of a UK listed company with South East Asian involvement. Has subsequently held directorships of a number of companies in both executive and non-executive capacities. These currently include the chairmanship of AMEC PLC.

John Keatley
Senior independent non-executive director (75)

Was a non-executive director from 1975 to 1983 and chairman from 1978 to 1983. Rejoined the board in a non-executive capacity in 1985 and is chairman of the nomination committee. After a background in the fertiliser industry, is now involved in a family business investing in property in the UK and elsewhere.

David Killick, FCIS
Independent non-executive director (71)

Was appointed a director in September 2006 and is a member of the audit and remuneration committees. Qualified as a barrister and is a Fellow of the Institute of Chartered Secretaries and Administrators. Worked for over 28 years for the Commonwealth Development Corporation, serving as a member of its management board from 1980 to 1994. Currently a director of Reallyenglish.com Limited and a member of the management council of Slough Council for Voluntary Service.

Charles Letts
Independent non-executive director (90)

Was appointed a director in 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, 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, has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. Present directorships include The China Club Limited and China Investment Fund.

Chan Lok Lim
Independent non-executive director (67)

Was appointed a director in August 2002. 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. Chairman of SPC Power Corporation listed on the Philippines Stock Exchange, and a director of Agusan Plantations Inc, Philippines, Agumil Philippines Inc and Pan Abrasives (Private) Limited, Singapore.

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' reports, for the year ended 31 December 2008.

Principal activities and business review

The principal activity of the group is the cultivation of oil palms in the Indonesian province of East Kalimantan. A review of the activities and planned future development of the group together with the principal risks and uncertainties facing the group is provided in the accompanying "Chairman's statement" and "Review of the group" sections of this annual report which are incorporated by reference in this Directors' report. In particular, that review includes information as to group policy and objectives regarding the use of financial instruments. Information as to such policy and objectives and the risk exposures arising is also included in note 21 to the consolidated financial statements.

The group does not undertake significant research and development activities.

Details of significant events since 31 December 2008 are contained in note 40 to the consolidated financial statements.

Results and dividends

The results are presented in the consolidated income statement and notes thereto.

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2008 were duly paid. A first interim dividend in respect of 2008 of 1.5p per share was paid on the ordinary shares on 26 September 2008 and a second interim dividend in lieu of final of a further 1.5p per share was paid on those shares on 30 January 2009. The directors do not recommend the payment of any further ordinary dividends in respect of 2008.

Going concern basis

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Review of the group" section of this annual report which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy, and treasury policies. In addition, note 21 to the consolidated financial statements includes information as to the group's policy, objectives, and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Although the group has indebtedness, that indebtedness is medium term and the group is not materially reliant on short term borrowing facilities. Moreover, the group has considerable cash resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Charitable and political donations

During the year the group made no charitable or political donations.

Supplier payment policy

It is the company's policy to establish appropriate payment terms and conditions for dealings with suppliers and to comply with such terms and conditions. The holding company itself does not have trade creditors.

Directors' report continued

Directors

The directors are listed in the "Directors" section of this annual report. All the directors served throughout 2008, save for Mr Blackett who was appointed during the year. In compliance with the company's articles of association providing for the appointment of additional directors, Mr Blackett holds office until the forthcoming annual general meeting and, being eligible, offers himself for re-election. Messrs Lim and Oakley retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being in compliance with the company's articles of association providing for rotation of directors. Messrs Robinow, Green-Armytage, Keatley and Letts retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being in compliance with the provisions of the Combined Code on Corporate Governance requiring the annual re-election of non-executive directors who have served as such for more than nine years.

The directors believe that, in the present circumstances of the company, continuity and familiarity with the issues immediately facing the company are important and that the variety of backgrounds and skills possessed by the longer serving non-executive directors usefully complement those of the other directors, provide perspective and facilitate balanced and effective decision making. The board therefore recommends (each affected director abstaining from such conclusion as it applies to himself) the re-election of all of the directors offering themselves for re-election. The senior independent non-executive director and the chairman have confirmed as regards, respectively, the chairman and the other non-executive directors offering themselves for re-election that, following formal performance evaluations, each such individual's performance continues to be effective and to demonstrate commitment to the role assumed, including commitment of time for board and committee meetings and, where applicable, other assigned duties.

Directors' interests

At 31 December 2008, the interests of directors (including interests of connected persons as defined in section 96B (2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to become, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as follows:

	Preference shares	Ordinary shares
R M Robinow	474,718	10,030,000
D J Blackett	-	-
J M Green-Armytage	8,447	80,704
J R M Keatley	51,669	680,878
D H R Killick	-	20,000
L E C Letts	12,224	108,008
C L Lim	-	-
J C Oakley	513	1,804

Details of an option held by Mr Oakley to subscribe for ordinary shares of 25p each of the company are provided in the "Directors' remuneration report" section of this annual report.

There have been no changes in the interests of the directors detailed above between 31 December 2008 and the date of this report save that Mr Robinow is now interested in 424,718 preference shares.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force for the benefit of directors of the company and of other members of the group throughout 2008 and remain in force at the date of this report.

Substantial shareholders

As at the date of this report, the company has received notifications required by The Disclosure Rules and Transparency Rules of the Financial Services Authority from the following persons of voting rights held by them as shareholders through the holdings of ordinary shares indicated:

	Number	%
Emba Holdings Limited	9,957,500	30.57
Alcatel Bell Pensioenfonds VZW	4,007,049	12.30
Prudential plc and certain subsidiaries	3,937,297	12.09
Artemis UK Smaller Companies	1,919,400	5.89

In addition, the company has been notified that the above interest of Prudential plc and certain subsidiaries includes 3,447,792 ordinary shares (10.58 per cent) in which M&G Investment Funds 3 is also interested.

The shares held by Emba Holdings Limited are included as part of the interest of Mr R M Robinow shown under "Directors' interests" above. By deeds dated 24 November 1998 and 10 April 2001, Emba Holdings Limited has agreed that it will not undertake activities in conflict with those of the group and that it will deal with the group only on a basis that is appropriate between a listed company and its subsidiaries and a significant shareholder.

Control and structure of capital

Details of the company's share capital and changes in share capital during 2008 are detailed in note 30 to the consolidated financial statements. At 31 December 2008, the preference share capital and the ordinary share capital represented, respectively, 64.7 and 35.3 per cent of the total issued share capital.

The rights and obligations attaching to the ordinary and preference shares are governed by the company's articles of association and prevailing legislation. Rights to income and capital are summarised in note 30 to the consolidated financial statements.

On a show of hands at a general meeting of the company, every holder of shares and every duly appointed proxy of a holder of shares, in each case being a holder entitled to vote on the resolution before the meeting, shall have one vote. On a poll, every holder of shares present in person or by proxy and entitled to vote on the resolution the subject of the poll shall have one vote for each share held. Holders of preference shares are not entitled to vote on a resolution proposed at a general meeting unless, at the date of notice of the meeting, the dividend on the preference shares is more than six months in arrears or the resolution is for the winding up of the company or is a resolution directly and adversely affecting any of the rights and privileges attaching to the preference shares. Deadlines for the exercise of voting rights and for the appointment of a proxy or proxies to vote in relation to any resolution to be proposed at a general meeting are governed by the company's articles of association and prevailing legislation and will normally be as detailed in the notes accompanying the notice of the meeting at which the resolution is to be proposed.

There are no restrictions on the size of any holding of shares in the company. Shares may be transferred either through the CREST system (being the relevant system as defined in the Uncertificated Securities Regulations 2001 of which CRESTCo Limited is the operator) where held in uncertificated form or by instrument of transfer in any usual or common form duly executed and stamped, subject to provisions of the company's articles of association empowering the directors under certain circumstances to refuse to register any transfer of shares, such circumstances being principally where the shares are not fully paid, the shares are to be transferred into a joint holding of more than four persons, the transfer is not appropriately supported by evidence of the right of the

transferor to make the transfer or the transferor is in default in compliance with a notice served pursuant to section 793 of the Companies Act 2006. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person holds securities carrying special rights with regard to control of the company and there are no arrangements in which the company co-operates by which financial rights carried by shares are held by a person other than the holder of the shares.

The appointment and replacement of directors is governed by the company's articles of association and prevailing legislation, augmented by the principles laid down in the Combined Code on Corporate Governance which the company seeks to apply in a manner proportionate to its size as further detailed in the "Corporate governance report" section of this annual report.

The articles of association provide that the business of the company is to be managed by the directors and empower the directors to exercise all powers of the company, subject to the provisions of such articles (which include a provision specifically limiting the borrowing powers of the group) and prevailing legislation and subject to such directions as may be given by the company in general meeting by special resolution. The articles of association may be amended only by a special resolution of the company in general meeting and, where such amendment would modify, abrogate or vary the class rights of any class of shares, with the consent of that class given in accordance with the company's articles of association and prevailing legislation.

The 7.5 per cent dollar notes 2012/14 of the company ("dollar notes") and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. ("sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any usual or common form duly executed in amounts and multiples, in the former case, of $1 and, in the latter case, of £1,000. There is no maximum limit on the size of any holding in either case.

Significant holdings of preference shares, dollar notes and sterling notes shown by the register of members and registers of dollar and sterling noteholders at 31 December 2008 were as follows:

	Preference shares '000	Dollar notes $'000	Sterling notes £'000
BNY Mellon Nominees Limited BSDTABN Account	–	–	5,231
HSBC Global Custody Nominee (UK) Limited 641898 Account	–	–	4,000
HSBC Global Custody Nominee (UK) Limited 993791 Account	1,813	–	–
Rulegale Nominees Limited JAMSCLT Account	2,463	–	–
Vidacos Nominees Limited	–	–	16,300
Vidacos Nominees Limited CLRLUX Account	–	3,315	–
Morris Edward Zukerman	–	9,500	–
Morris Edward Zukerman ZFT Account	–	9,500	–

A change of control of the company would entitle holders of the sterling notes and certain holders of the dollar notes to require repayment of the notes held by them as detailed in notes 23 and 24 to the consolidated financial statements.

The option held by Mr J C Oakley to subscribe for ordinary shares of 25p each of the company as referred to under "Directors' interests" above may be exercised within six months of a change of control. Awards to senior group executives under the company's long term incentive plan will vest and may be encashed within one month of a change of control as detailed under "Long term incentive

plan" in the "Directors' remuneration report" section of this annual report. The directors are not aware of any agreements between the company and its directors or between any member of the group and a group employee that provides for compensation for loss of office or employment that occurs because of a takeover bid.

Treasury shares and power to repurchase shares

No shares of the company are at present held in treasury.

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting. There is no authority extant for the purchase by the company of its own shares.

Power to issue share capital

At the annual general meeting held on 6 June 2008, shareholders authorised the board under the provisions of section 80 of the Companies Act 1985 to allot relevant securities within specified limits. Replacements of the applicable authorities are being sought at the forthcoming annual general meeting when the existing authorities will expire. The replacement authorities will provide for the allotment of (i) ordinary share capital up to an aggregate nominal amount of £2,106,536, (comprising 8,426,144 ordinary shares) equating to the unissued ordinary share capital at the date of this report and (ii) preference share capital up to an aggregate nominal amount of £2,597,046 (comprising 2,597,046 preference shares) representing the unissued preference share capital at the date of this report.

The new ordinary shares and new preference shares the subject of the new authorities will represent, respectively, 25.9 per cent and 17.4 per cent of the ordinary shares and preference shares in issue at the date of this report. The new authorities will lapse on the date of the annual general meeting to be held in 2010 or on 31 August 2010 (whichever is the earlier). The directors have no present intention of exercising these authorities.

A fresh authority is also being sought under the provisions of section 95 of the Companies Act 1985 to enable the board to make a rights issue or open offer of ordinary shares to existing ordinary shareholders without being obliged to comply with certain technical requirements of the Companies Act 1985, which create problems with regard to fractions and overseas shareholders. In addition, the authority will give the board power to make issues of ordinary shares for cash other than by way of a rights issue or open offer up to a maximum nominal amount of £407,173 representing 5 per cent of the ordinary share capital in issue at the date of this report. The section 95 authority will terminate on the date of the annual general meeting to be held in 2010 or on 31 August 2010 (whichever is the earlier).

General meeting notice period

The notice of the forthcoming annual general meeting includes a resolution (set out as resolution 15 in the notice) to approve the convening of general meetings on 14 clear days' notice. This resolution is being proposed in anticipation of implementation of the Shareholder Rights Directive (expected in August 2009) which, absent specific shareholder approval of shorter notice and compliance with requirements for electronic voting, will increase the notice period for general meetings of the company to 21 days. The company is currently able to call general meetings (other than an annual general meeting) on 14 clear days' notice and would like to preserve this ability. Resolution 15, if passed, would

provide the requisite shareholder approval. This would remain effective until the company's next annual general meeting, when it is intended that a similar resolution will be proposed.

Recommendation

The board considers that granting the directors authorities and power as detailed under "Power to issue share capital" and "General meeting notice period" above is in the best interests of the company and shareholders as a whole and recommends that ordinary shareholders vote in favour of the resolutions to provide the authorities and power as set out in the notice of the forthcoming annual general meeting.

Auditors

Each director of the company at the date of approval of this report has confirmed that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2009

Corporate governance

General

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Combined Code on Corporate Governance issued in 2006 by the Financial Reporting Council ("the Code") and revised in June 2008 (for accounting periods beginning on or after 29 June 2008) provide a widely endorsed model for achieving this. The directors seek to apply those principles in a manner proportionate to the group's size but reserving the right enshrined in the Code, when it is appropriate to the individual circumstances of the company, not to comply with certain Code principles and to explain why.

Throughout the year ended 31 December 2008, the company was in compliance with the provisions set out in section 1 of the Code. In making this statement, the directors have reflected their view detailed below as to the independence of long serving non-executive directors.

Board of directors

The board currently comprises one executive director and seven non-executive directors (including the chairman). Biographical information concerning each of the directors is set out in the "Directors" section of this annual report. The board believes that the variety of backgrounds and skills provided by its members provides perspective and facilitates balanced and effective decision making. The chairman and managing director (being the chief executive) have defined separate responsibilities: the chairman has responsibility for matters of strategy and finance; the managing director has responsibility for operational matters. Neither has unfettered powers of decision. All of the non-executive directors, with the exception of the chairman, are considered by the board to have been independent throughout the year.

The directors acknowledge that some institutional investors take the view that non-executive directors who have served on the board of the company for more than nine years can never be regarded as independent and that, on this basis, three such non-executive directors should not be treated as independent. In fact what the Code states is that service by a director for more than nine years is to be taken into account by the board in assessing his independence but it is not, under the Code, determinative of independence. All of the long serving non-executive directors of the company are re-elected annually after endorsement of their independence by their co-directors as required by the Code and none of these directors is financially or otherwise materially dependent upon the company. The board continues to be satisfied that the independence of the long serving independent non-executive directors is not affected by their length of service.

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

Whilst as already noted the directors do not agree that long service automatically negates the independence of a non-executive director, they do accept that it is important to retain shareholder confidence in the board and, in particular, in the audit committee's contribution to the integrity of the audit process. Accordingly, during 2008 the directors concluded that the time was appropriate to seek the appointment of an additional non-executive director to refresh and strengthen the composition of the board. Following a recommendation by the nomination committee, Mr D J Blackett, who has a relevant financial background as well as considerable experience and expertise in the commercial and geographical areas in

which the group operates, was duly appointed to the board on 1 July 2008 and has now taken over the chairmanship of the audit and remuneration committees.

Under the company's articles of association, any director who has not been appointed or re-appointed at each of the preceding two annual general meetings shall retire by rotation and may submit himself for re-election. This has the effect that each non-executive director is subject to re-election at least once every three years. In addition, in order to comply with the Code, non-executive directors who have served on the board for more than nine years submit themselves for re-election every year. Further, any director appointed during the year holds office until the next annual general meeting and may then submit himself for re-election.

Directors' conflicts of interest

In connection with the statutory duty to avoid any situation which conflicts or may conflict with the interests of the company, the board has approved the continuance of potential conflicts notified by Messrs Robinow and Green-Armytage, each of the two directors absenting himself from the discussion in respect of himself. Such notifications relate to each of the directors' interests as shareholders in and/or directors of companies the interests of which might conflict with those of the group but are not at present considered to conflict. No other conflicts or potential conflicts have been notified by directors.

Board responsibilities

The board is responsible for the proper management of the company. Full quarterly operational and financial reports are issued to all directors following the end of each quarter for their review and comment. These reports are augmented by annual budgets and positional papers on matters of a non routine nature. The board has a schedule of matters reserved for its decision. Such matters include strategy, material investments and financing decisions and the appointment or removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet objectives and for reviewing performance, financial controls and risk.

The company carries appropriate insurance against legal action against its directors. The current policy which became effective on 1 January 2007 was in place throughout 2008 in compliance with the Code requirement to carry such insurance.

Board committees

The board has appointed audit, nomination and remuneration committees to undertake certain of the board's functions, with written terms of reference which are available for inspection on the company's website. Information concerning the remuneration of directors is provided in the "Directors' remuneration report" section of this annual report together with details of the basis upon which such remuneration is determined.

Performance evaluation

A formal evaluation of the performance of the board, the committees and individual directors is undertaken annually. Balance of powers, contribution to strategy, monitoring and accountability to stakeholders are reviewed by the board as a whole and the performance of the chairman is appraised by independent non-executive directors led by the senior independent director.

Professional development

In view of their previous relevant experience and, in most cases, length of service on the board, all directors are familiar with the financial and operational characteristics of the group's activities. Directors are required to ensure that they maintain that familiarity and keep themselves fully cognisant of the affairs of the group and matters affecting its operations and finances. Whilst there are no formal training programmes, the board regularly reviews its own competences, receives periodic briefings on legal

and regulatory developments affecting the group and may arrange training on specific matters where it is thought to be required. Directors are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

Steps are taken to ensure that newly appointed directors become fully informed as to the group's activities.

Board proceedings

A minimum of four meetings of the full board are held each year. Other board meetings are held as required to consider corporate and operational matters with all directors consulted in advance regarding significant matters for consideration. Minutes of board meetings are circulated to all directors. The executive director, unless travelling, is normally present at full board meetings but, where appropriate, telephone discussions take place between the chairman and the other non-executive directors outside the formal meetings. Committee meetings are held as and when required.

The attendance of individual directors at the full and "ad hoc" board meetings held during 2008 were as follows:

	Full meeting	Ad hoc meeting
R M Robinow	8	12
J C Oakley	7	12
J M Green-Armytage	7	-
J R M Keatley	8	1
L E C Letts	7	-
C L Lim	5	-
D H R Killick	8	-
D J Blackett (appointed 1 July 2008)	2	-

In addition, during 2008, there were three meetings of the audit committee; the third of these was held following the change in the composition of the committee upon the appointment of Mr D J Blackett as chairman of the committee. A meeting of the remuneration committee was held in January 2008 and a meeting of the nomination committee was held in June 2008.

All committee meetings were attended by all committee members.

Nomination committee

The nomination committee comprises Mr J R M Keatley (chairman), Mr L E C Letts and Mr R M Robinow. It is responsible for recommending appointments to the board. Recommendations from the committee are submitted for approval by the full board.

During the year, the committee, in response to an invitation from the board to make a recommendation for the appointment of an additional non-executive director, recommended the appointment of Mr D J Blackett. In establishing the specification for this appointment, the committee concurred with the view of the board that the appointee must have had the necessary financial experience to qualify him or her to serve on the audit committee but also decided that the appointee should have a background in South East Asia, a knowledge of matters affecting UK listed companies and experience relevant to the group's activities. In view of the specialised character of these combined requirements, it was not considered appropriate to employ consultants or to advertise. Instead, a short list of candidates considered to have the necessary skills and qualifications was assembled and Mr Blackett was selected from this short list.

Audit committee

The audit committee currently comprises Mr D J Blackett (chairman) and Mr D H R Killick both of whom are considered by the directors to have the relevant financial experience. Mr J M Green-Armytage stepped down on 11 November 2008, following the appointment of Mr Blackett to the committee on 28 October 2008.

The audit committee is responsible for:

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

The audit committee also monitors the engagement of the auditors to perform non-audit work. During 2008, the only non-audit work undertaken by the auditors was routine compliance reporting in connection with covenant obligations applicable to certain group loans. The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements was such that the independence and objectivity of the auditors was not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves and with the external auditors and management, by consideration of reports by management, the Indonesian internal audit function and the external auditors and by holding at least three formal meetings in each year.

Relations with shareholders

The "Chairman's statement" and "Review of the group" sections of the annual report, when read in conjunction with the financial statements, directors' report and directors' remuneration report, are designed to present a comprehensive and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditors in connection with the financial statements are detailed in the "Directors' responsibilities" section of this report and in the auditors' report.

The directors endeavour to ensure that there is satisfactory dialogue, based on mutual understanding, between the company and its shareholder body. The annual report, interim communications, periodic press releases and such circular letters to shareholders as circumstances may require are intended to keep shareholders fully informed as to progress in the operational activities and financial affairs of the group. In addition, within the limits imposed by considerations of confidentiality, the company has regular meetings and other contact with institutional and other major shareholders in order to understand their concerns. The views of shareholders are communicated to the board as a whole to ensure that the board maintains a balanced understanding of shareholder opinions and issues arising.

All ordinary shareholders may attend the company's annual and other general meetings and put questions to the board. Two non-executive directors are based in Singapore and the nature of the group's business requires that the chairman and managing director travel frequently to Indonesia. It is therefore not always feasible, for all directors to attend general meetings, but those directors who are present are available to talk on an informal basis to shareholders after the meeting's conclusion. All proxy votes are counted and full details of all proxies lodged for each resolution are reported to the meeting and made available on the company's website. At least twenty working days' notice is given of the annual general meeting and related papers are sent to shareholders.

The company maintains a corporate website at "www.rea.co.uk." This provides information regarding the company, including photographs illustrating various

aspects of the group's operations, and provides a facility for downloading recent press releases issued by the company and other relevant documentation concerning the company.

Internal control

The board has overall responsibility for the group's system of internal control and reviewing its effectiveness. The board has established a continuous process for identifying, evaluating and managing the significant risks the group faces. The process, which accords with the revised guidance on internal control published in October 2005, was in place throughout 2008 and has remained in place up to the date of approval of this report. Such a process is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board regularly reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring.

The board performed a specific review of the system of internal control on 12 November 2008 (including the group's internal audit arrangements) and reconfirmed the review for the purposes of this annual report. The review, as reconfirmed, considered all aspects of internal control arising during the period covered by the report. The review resulted in the board querying aspects of the established system for approving variations to budgetary approvals. An independent report was commissioned and, following its receipt, the budgetary variation system has been modified. During the course of the review, the board did not otherwise identify or become aware of any failings or weaknesses in internal control which it deemed to be significant.

Internal audit and reporting

The group's Indonesian operations have an internal audit function supplemented where necessary by the use of external consultants. The function reports regularly and summaries of the reports are issued to the audit committee. In the opinion of the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

The group has established a management hierarchy which is designed to delegate the day to day responsibility for specific departmental functions within each working location, including financial, operational and compliance controls and risk management, to a number of senior managers, reporting through the local senior executive to the managing director.

Management reports to the board on a regular basis by way of the circulation of progress reports, management reports and management accounts. Management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. At least two supervisory visits each year are undertaken to the overseas operations by the executive director and other directors make periodic visits to those operations. Reports of such visits are circulated to the board and reviewed by the board at the regular board meetings.

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration set out in the Combined Code on Corporate Governance (the "Code"). As required by the Act, a resolution to approve the report will be proposed at the annual general meeting at which the accompanying financial statements are laid before the company's members.

The Act requires the auditors to report to the company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The remuneration committee

The company has established a remuneration committee. The members of the remuneration committee during 2008 and, in particular, when directors' remuneration for 2008 was considered, were Mr J M Green-Armytage (chairman), Mr D H R Killick and Mr R M Robinow. The membership of the committee was changed on 23 April 2009 and now comprises Mr D J Blackett (chairman) and Mr D H R Killick. While Mr Robinow was a member of the committee, any matter concerning Mr Robinow was discussed without Mr Robinow being present.

Remuneration policy

The committee sets the remuneration and benefits of the chairman and the managing director. The latter is currently the only executive director but the committee would set the remuneration and benefits of any other executive directors who might in future be appointed. In setting remuneration and benefits, it considers the achievement of each individual in attaining the objectives set for that individual (including objectives relating to corporate performance on environmental and social matters and corporate governance), the responsibilities assumed by the individual and, where the role is part time, the time commitment involved. It draws on data of the remuneration of others performing similar functions in similarly sized organisations but does not use independent consultants.

The key objective of the remuneration policy (which applies for 2009 and subsequent years) is to attract, motivate, retain and fairly reward executive directors of a high calibre, while ensuring that the remuneration of each individual executive director is consistent with the best interests of the company and its shareholders. In framing its policy on performance related remuneration (which is payable only to executive directors) the committee follows the provisions of schedule A to the Code.

The committee considers all proposals for executive directors to hold outside directorships. Such directorships are normally permitted only if considered to be of value to the group and on terms that any remuneration payable will be accounted for to the group.

Basis of remuneration

The policy on remuneration of executive directors is that basic remuneration of each executive director should comprise an annual salary, part of which is pensionable, and certain benefits-in-kind, principally a company car. In addition an executive director should be paid non-pensionable performance related bonuses. These are to be awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant year and the contribution to performance that

each director is assessed by the committee to have made. Bonuses should not normally exceed 50 per cent of salary and are paid in cash. There is no separate pension scheme for executive directors and the only current executive director (the managing director) is a member of the R.E.A. Pension Scheme.

Service contracts

The company's current policy on service contracts is that contracts should have a notice period of not more than one year and a maximum termination payment not exceeding one year's salary. No director has a service contract that is not fully compliant with this policy.

The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years, thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2008 the unexpired term remained as six months. There are no provisions for compensation for early termination save that Mr Oakley would be entitled to a payment in lieu of notice if due notice had not been given.

Non-executive directors

The remuneration of non-executive directors other than the chairman is determined by the board within the limits set by the articles of association, no director taking part in the determination of his own remuneration. The level of remuneration is determined having regard to that paid by comparable organisations.

Performance graph

A performance graph is shown in the "Key statistics" section of this annual report. This compares the performance of the company's ordinary shares (measured by total shareholder return) with that of the FTSE all share index for the period from January 2004 to December 2008. This index has been selected as there is no index available that is specific to the activities of the company.

Long term incentive plan

A long term incentive plan (the "plan") was introduced in 2007. It is designed to provide incentives, linked to the increase in value of ordinary shares in the company, to a small number of key senior executives in Indonesia with a view to their participating over the long term in value created for the group. No director may participate. The plan period commenced on 1 January 2007 and ends on 31 December 2010 (the "performance period").

Under the plan, participants are awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vest to an extent that is dependent upon the achievement of targets. A vested entitlement may be exercised in whole or part at any time from 1 January 2011 until 31 December 2016. On exercising a vested entitlement, a participant will receive a cash amount for each ordinary share over which the entitlement is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over 433.5p, being the market price of an ordinary share on 1 January 2007.

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

The vesting of potential entitlements and the exercise of vested entitlements is dependent on continued employment with the group. If a participant ceases employment with the group before the end of the performance period, 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 performance period up to the cessation date expressed as a fraction of the full 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 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 change of control or other relevant event (as determined by the remuneration committee) and time apportioned for the elapsed portion of the performance period up to the applicable date expressed as a fraction of the full performance period. The resultant vested entitlements will be exercisable for a period of one month following the applicable date.

At 31 December 2008, the total number of notional ordinary shares over which awards of potential entitlements had been made amounted to 195,000. On the basis of the market price of the ordinary shares on 31 December 2008 of 202.5p per share, the total gain to participants in respect of the potential entitlements awarded would, if such entitlements had vested in full, have been £nil.

Audited information

Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2008 (with comparative totals for 2007):

	Salary and fees £'000	Other* £'000	2008 Total £'000	2007 Total £'000
R M Robinow (chairman)	168	8	176	174
J C Oakley	205	34	239	300
D J Blackett**	9	-	9	-
J M Green-Armytage	17	-	17	13
J R M Keatley	17	-	17	13
D H R Killick	17	-	17	13
L E C Letts	17	-	17	13
C L Lim	17	-	17	13
	467	42	509	539

* comprises benefits.
** appointed 1 July 2008.

The above table includes amounts payable in respect of service arrangements with companies in which Mr Robinow, Mr Green-Armytage, Mr Letts and Mr Lim were interested.

In addition to the benefits shown under "Other" above, in 2006 Mr Oakley received a benefit in kind relating to the tax liability arising on a gain on exercise of share options estimated at £163,000. It was agreed with Mr Oakley that he would effectively refund this amount by commensurate reduction in future non pensionable remuneration to which he would otherwise become entitled after 1 January 2008. In 2008, the non-pensionable salary ordinarily payable was reduced by £42,500 and the bonus that would normally have been paid by £50,000.

Director's pension entitlement - Mr J C Oakley

Mr Oakley (who was aged 60 at 31 December 2008) is an ordinary member of the R.E.A. Pension Scheme which is a defined benefit scheme of which details are shown in note 37 to the consolidated financial statements. Pensionable earnings are calculated on part of the annual salary only. Details of the accrued pension are set out below.

	£
Accrued annual pension at beginning of year	81,756
Increase in accrued annual pension during year	6,669
Accrued annual pension at end of year	88,425
Pension transfer value at beginning of year	1,706,745
Contributions made by the director	10,275
Increase in pension transfer value during year*	216,794
Pension transfer value at end of year	1,933,814

*net of director's contributions

The increase during the year in excess of inflation in accrued annual pension was £5,894 and in pension transfer value was £200,609.

Share options - Mr J C Oakley

Pursuant to an option agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each at a price of 45p per share payable in cash. There were no performance conditions attached to the grant of this option as the directors did not consider, in the particular circumstances in which the option was granted, that it would be appropriate to impose any conditions and the option was based on the full market value of the ordinary shares at the date of the grant. The grant of the option to Mr Oakley on this basis was approved by special resolution of the company prior to execution of the option agreement.

The number of shares the subject of the option and the option subscription price have been amended from time to time to take account of share issues since the option was granted. As a result, at the beginning of the year the number of ordinary shares the subject of the option was 828,113 and the exercise price was 44.8289p per share and, at the end of the year and at the date of this report, the number of ordinary shares so subject was 840,689 and the exercise price was 43.753p per share. The option expires on 21 May 2012.

The market price of the ordinary shares at 31 December 2008 was 202.5p and the range during the year was 190p to 727p.

No other options have been granted by the company.

Approved by the board on 27 April 2009

RICHARD M ROBINOW

Chairman

Directors' responsibilities

The directors are responsible for preparing the annual report including the directors' report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, the Companies Act 1985 and Article 4 of European Commission Regulation 1606/2002.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation should be achieved by compliance with all applicable IFRS. However, directors are also required to:

- properly select and apply suitable accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (including United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmation

The directors are responsible for the preparation of this annual report.

To the best of the knowledge of each of the directors:

- the accompanying financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the accompanying "Directors' report" section of this annual report including the "Review of the group" section of this annual report which the Directors' report incorporates by reference provides a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The current directors of the company and their respective functions are set out in the "Directors" section of this annual report.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2009

Auditors' report (group)

Independent auditors' report to the members of R.E.A. Holdings plc

We have audited the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and the related notes 1 to 41. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented in the review of the group that is cross referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the directors' report, the chairman's

statement, the unaudited part of the directors' remuneration report, the review of the group and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the group financial statements.

DELOITTE LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
27 April 2009

Consolidated income statement

for the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
Revenue	2	79,630	57,600
Net (loss) / gain arising from changes in fair value of agricultural produce inventory	4	(4,214)	5,578
Cost of sales		(27,682)	(14,875)
Gross profit		47,734	48,303
Net (loss) / gain arising from changes in fair value of biological assets	13	(2,660)	8,030
Other operating income	2	4	6
Distribution costs		(1,049)	(1,028)
Administrative expenses		(3,466)	(5,925)
Operating profit		40,563	49,386
Investment revenues	2, 7	1,185	1,641
Finance costs	8	(5,439)	(4,017)
Profit before tax	5	36,309	47,010
Tax	9	(10,536)	(15,013)
Profit for the year		25,773	31,997
Attributable to:			
Ordinary shareholders		23,833	29,453
Preference shareholders	10	2,360	2,266
Minority interests	34	(420)	278
		25,773	31,997
Earnings per 25p ordinary share	11		
Basic		73.2 cents	91.9 cents
Diluted		71.5 cents	89.6 cents

All operations in both years are continuing.

Consolidated balance sheet

as at 31 December 2008

	Note	2008 $'000	2007 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	179,745	166,347
Property, plant and equipment	14	63,069	41,772
Prepaid operating lease rentals	15	13,088	8,823
Indonesian coal rights	16	5,386	–
Deferred tax assets	26	2,444	5,817
Non-current receivables		1,917	1,376
Total non-current assets		278,227	236,713
Current assets			
Inventories	18	12,795	13,040
Trade and other receivables	19	8,872	3,301
Cash and cash equivalents	20	30,316	34,216
Total current assets		51,983	50,557
Total assets		330,210	287,270
Current liabilities			
Trade and other payables	29	(12,113)	(7,070)
Current tax liabilities		(904)	(2,935)
Obligations under finance leases	27	(53)	(111)
Bank loans	22	(10,750)	(3,000)
Other loans and payables	28	(380)	(449)
Total current liabilities		(24,200)	(13,565)
Non-current liabilities			
Bank loans	22	(2,167)	(12,917)
Sterling notes	23	(50,234)	(41,604)
US dollar notes	24	(29,632)	(29,389)
Hedging instruments	25	(26,517)	168
Deferred tax liabilities	26	(31,478)	(37,166)
Obligations under finance leases	27	(61)	(127)
Other loans and payables	28	(3,310)	(4,037)
Total non-current liabilities		(143,399)	(125,072)
Total liabilities		(167,599)	(138,637)
Net assets		162,611	148,633
Equity			
Share capital	30	40,714	38,299
Share premium account	31	27,322	29,787
Translation reserve	32	(16,388)	(9,822)
Retained earnings	33	110,383	89,492
		162,031	147,756
Minority interests	34	580	877
Total equity		162,611	148,633

Approved by the board on 27 April 2009 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of recognised income and expense

for the year ended 31 December 2008

	2008 $'000	2007 $'000
Exchange translation differences and loss on fair valuation of hedging instruments	(14,638)	(1,460)
Tax on items taken directly to equity	8,023	528
Net loss recognised directly in equity	(6,615)	(932)
Profit for the year	25,773	31,997
Share based payment - deferred tax (charge) / credit	(1,444)	385
Total recognised income and expense for the year	17,714	31,450
Attributable to:		
Ordinary shareholders	15,823	28,907
Preference shareholders	2,360	2,266
Minority interests	(469)	277
	17,714	31,450

Consolidated statement of changes in equity

for the year ended 31 December 2008

	2008 $'000	2007 $'000
Total recognised income and expense for the year	17,714	31,450
Issue of new ordinary shares by way of placings and open offer (net of costs)	–	13,027
Issue of new preference shares by way of placings (net of costs)	–	2,180
Costs re scrip issue of preference shares	(50)	–
Dividends to preference shareholders	(2,360)	(2,266)
Dividends to ordinary shareholders	(1,498)	(1,279)
Minority interest in subsidiary acquired	172	–
	13,978	43,112
Equity at beginning of year	148,633	105,521
Equity at end of year	162,611	148,633

Consolidated cash flow statement

for the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
Net cash from operating activities	35	32,300	28,176
Investing activities			
Interest received		1,185	1,641
Proceeds on disposal of property, plant and equipment		103	200
Purchases of property, plant and equipment		(24,665)	(15,010)
Expenditure on biological assets		(15,126)	(14,820)
Expenditure on prepaid operating lease rentals		(1,205)	(3,787)
Acquisition of subsidiary company		(3,158)	–
Investment in Indonesian coal rights		(5,386)	–
Net cash used in investing activities		(48,252)	(31,776)
Financing activities			
Preference dividends paid		(2,360)	(2,266)
Ordinary dividends paid		(1,498)	(1,279)
Repayment of borrowings		(3,000)	(25,833)
Repayment of obligations under finance leases		(90)	(268)
Proceeds of issue of preference share capital less expenses		(50)	2,180
Proceeds of issue of ordinary share capital less expenses		–	13,027
Issue of sterling notes, net of expenses		26,880	13,438
New bank borrowings drawn		–	1,000
Net cash from financing activities		19,882	(1)
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	36	3,930	(3,601)
Cash and cash equivalents at beginning of year		34,216	37,266
Effect of exchange rate changes		(7,830)	551
Cash and cash equivalents at end of year		30,316	34,216

Accounting policies (group)

General information

R.E.A. Holdings plc is a company incorporated in the United Kingdom under the Companies Act 1985. The company's registered office is at First Floor, 32-36 Great Portland Street, London W1X 8QX. Details of the group's principal activities are provided in the "Directors' report".

Basis of accounting

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use by the European Union as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

The comparative consolidated balance sheet and related notes contain some reclassifications of headings and amounts so as to align the prior year presentation with that at 31 December 2008. Such reclassifications principally concern the presentation of amounts relating to derivative financial instruments and do not affect the prior year consolidated income statement and consolidated cash flow statement.

For the reasons given under "Going concern basis" in the "Directors' report", the financial statements have been prepared on the going concern basis.

Functional and presentational currency

The consolidated financial statements of the group are presented in US dollar, which is considered to be the currency of the primary economic environment in which the group operates. References to "$" or "dollar" in these financial statements are to the lawful currency of the United States of America.

Adoption of new and revised standards

Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and brought into effect for the latest reporting period have not led to any changes in the group's accounting policies.

At the date of authorisation of the consolidated financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IAS 1 (Revised): "Presentation of financial statements"
- IFRS 2 (Revised): "Share based payments vesting conditions and cancellations"
- IFRS 3 (Revised): "Business combinations"
- IFRS 8 (Revised): "Operating segments"
- IAS 23 (Revised): "Borrowing costs"
- IAS 27 (Revised): "Consolidated and separate financial statements"
- IFRIC 12: "Service concession arrangements"
- IFRIC 13: "Customer loyalty programmes"
- IFRIC 16: "Hedges of a net investment in a foreign operation"

The directors anticipate that when the relevant standards and interpretations come into effect for periods commencing on or after 1 January 2009 their adoption will have no material impact on the consolidated financial statements, save for additional disclosures which may be required.

Basis of consolidation

The consolidated financial statements consolidate those of the company and its subsidiary companies (as listed in note (i) to the company's individual financial statements) made up to 31 December of each year.

The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Any subsequent losses attributable to the minority shareholders in excess of the minority interest are allocated against the interest of the parent. Results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or to the effective date of

disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

On acquisition, any excess of the fair value of the consideration given over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency in consideration given against the fair value of the identifiable net assets acquired is credited to profit or loss in the consolidated income statement in the period of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill is recognised as an asset on the basis described in the above policy "Basis of consolidation" and once recognised is tested for impairment at least annually. Any impairment is debited immediately as a loss in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of any goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

Goodwill arising between 1 January 1998 and the date of transition to IFRS is retained at the previous UK Generally Accepted Accounting Practice amount subject to testing for impairment at that date. Goodwill written off to reserves prior to 1 January 1998, in accordance with the accounting standards then in force, has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in respect of goods and services provided in the normal course of business, net of VAT and other sales related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and include contracted sales in respect of which the contracted goods are available for collection by the buyer in the accounting period. Income from services is accrued on a time basis by reference to the rate of fee agreed with the buyer.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable (which is the rate that exactly discounts estimated future cash receipts, through the expected life of the financial asset, to that asset's net carrying amount). Dividend income is recognised when the shareholders' rights to receive payment have been established.

Leasing

Assets held under finance leases and other similar contracts are recognised as assets of the group at their fair values or, if lower, at the present values of minimum lease payments (for each asset, determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The corresponding liabilities are included in the balance sheet as finance lease obligations. Lease payments are apportioned between finance charges and a reduction in the lease obligation to produce a constant rate of interest on the balance of the capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Finance and hire purchase charges are charged directly against income.

Rental payments under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items,

and on the retranslation of other items that are subject to retranslation, are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities, including foreign currency loans, which, to the extent that they relate to investment in overseas operations or hedge the group's investment in such operations, are recognised directly in equity.

For consolidation purposes, the assets and liabilities of any group entity with a functional currency other than the US dollar are translated at the exchange rate at the balance sheet date. Income and expenses are translated at the average rate for the period unless exchange rates fluctuate significantly. Exchange differences arising are classified as equity and transferred to the group's translation reserve. Such exchange differences are recognised as income or expenses in the period in which the entity is sold.

Goodwill and fair value adjustments arising on the acquisition of an entity with a functional currency other than the US dollar are treated as assets and liabilities of that entity and are translated at the closing rate of exchange.

Borrowing costs

Borrowing costs incurred in financing construction or installation of qualifying property, plant or equipment are added to the cost of the qualifying asset, until such time as the construction or installation is substantially complete and the asset is ready for its intended use. Borrowing costs incurred in financing the planting of extensions to the developed agricultural area are treated as expenditure relating to biological assets until such extensions reach maturity. All other borrowing costs are recognised in the consolidated income statement of the period in which they are incurred.

Operating profit

Operating profit is stated after any gain or loss arising from changes in the fair value of biological assets (net of expenditure relating to those assets up to the point of maturity) but before investment income and finance costs.

Retirement benefit costs

For defined benefit retirement schemes, the estimated regular cost of providing for the benefits is calculated so that it represents a substantially level percentage of current and future pensionable payroll and is charged as an expense as it is incurred.

Amounts to recover actuarial losses, which are assessed at each actuarial valuation, are payable over a recovery period agreed with the scheme trustees. Provision is made for the present value of future amounts payable by the group to cover its share of such losses. The provision is reassessed at each accounting date, with the difference on reassessment being charged or credited to the consolidated income statement in addition to the adjusted regular cost for the period.

Taxation

The tax expense represents the sum of tax currently payable and deferred tax. Tax currently payable represents amounts expected to be paid (or recovered) based on the taxable profit for the period using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is calculated on the balance sheet liability method on a non-discounted basis on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding fiscal balances used in the computation of taxable profits (temporary differences). Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. A deferred tax asset or liability is not recognised in respect of a temporary difference that arises from goodwill or from the initial recognition of other assets or liabilities in a transaction which affects neither the profit for tax purposes nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the periods when deferred tax liabilities are settled or deferred tax assets are realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Biological assets

Biological assets comprise oil palm trees and nurseries, in the former case from initial preparation of land and planting of seedlings through to maturity and the entire productive life of the trees and in the latter case from planting of seed through to field transplanting of seedlings. Biological assets do not include the land upon which the trees and nurseries are planted, or the buildings, equipment, infrastructure and other facilities used in the upkeep of the planted areas and harvesting of crops. Up to 31 December 2006 biological assets included plantation infrastructure, which includes such assets as roads, bridges and culverts. With effect from 1 January 2007 new expenditure on these assets is included in property, plant and equipment.

The biological process commences with the initial preparation of land and planting of seedlings and ceases with the delivery of crop in the form of fresh fruit bunches ("FFB") to the manufacturing process in which crude palm oil and palm kernel are extracted from the FFB.

Biological assets are revalued at each accounting date on a discounted cash flow basis by reference to the FFB expected to be harvested over the full remaining productive life of the trees, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term average of historic crude palm oil prices buffered so that the implied movement in unit profit margin in any year does not exceed 5 per cent, and further, so as to restrict any implied change in unit profit margin in contradiction of the trend in current margins. Assets which are not yet mature at the accounting date, and hence are not producing FFB, are valued on a similar basis but with the discounted value of the estimated cost to complete planting and to maintain the assets to maturity being deducted from the discounted FFB value.

All expenditure on the biological assets up to maturity, including interest, is treated as an addition to the biological assets. Expenditure to maturity includes an allocation of overheads to the point that trees are brought into productive cropping. Such overheads include general charges and the costs of the Indonesian head office (including in both cases personnel costs and local fees) together with costs (including depreciation) arising from the use of agricultural buildings, plantation infrastructure and vehicles.

The variation in the value of the biological assets in each accounting period, after allowing for additions to the biological assets in the period, is charged or credited to profit or loss as appropriate, with no depreciation being provided on such assets.

Property, plant and equipment

All property, plant and equipment (including, with effect from 1 January 2007, additions to plantation infrastructure) is carried at original cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings - 20 years; plant and machinery - 5 to 16 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the terms of the relevant leases. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the consolidated income statement.

Prepaid operating lease rentals

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the periods of the leases.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that any asset has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are

independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset (or cash-generating unit) is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where, with respect to assets other than goodwill, an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories of agricultural produce harvested from the biological assets are stated at the fair value, less estimated sale costs, at the point of harvest of the FFB from which the produce derives plus costs incurred in the processing of such FFB (including direct labour costs and overheads that have been incurred in bringing such inventories to their present location and condition) or at net realisable value if lower. Inventories of engineering and other items are valued at the lower of cost, on the weighted average method, or net realisable value. For these purposes, net realisable value represents the estimated selling price (having regard to any outstanding contracts for forward sales of produce) less all estimated costs of processing and costs incurred in marketing, selling and distribution.

Recognition and derecognition of financial instruments

Financial assets and liabilities are recognised in the group's financial statements when the group becomes a party to the contractual provisions of the relative constituent instruments. Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or if the group transfers substantially all the risks and rewards of ownership to another party. Financial liabilities are derecognised when the group's obligations are discharged, cancelled or have expired.

Non-derivative financial assets

The group's non-derivative financial assets comprise loans and receivables, and cash and cash equivalents. The group does not hold any financial assets designated as held at 'fair value through profit and loss' ("FVTPL"), or as 'held-to-maturity' or 'available-for-sale' financial assets.

Loans and receivables

Trade receivables, loans and other receivables in respect of which payments are fixed or determinable and which are not quoted in an active market are classified as loans and receivables. All loans and receivables held by the group are non interest bearing and are stated at their nominal amount, as reduced by appropriate allowances for irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and, being subject to an insignificant risk of changes in value, are stated at their nominal amounts.

Non-derivative financial liabilities

The group's non-derivative financial liabilities comprise note issues, bank borrowings, finance leases and trade payables. The group does not hold any financial liabilities

classified as held for trading or designated as held at FVTPL.

Note issues, bank borrowings and finance leases

Note issues, bank borrowings and finance leases are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to notes, the coupon payable together with the amortisation of note issuance costs (which include any premiums payable on settlement or redemption) and, with respect to bank borrowings and finance leases, the contractual rate of interest together with the amortisation of costs associated with the negotiation of, and compliance with, the contractual terms and conditions. Note issues are recorded in the accounts at their redemption value net of the relative unamortised balances of issuance costs. Bank borrowings and finance leases are recorded at the amounts of the proceeds received less subsequent repayments with the relative unamortised balance of costs treated as non-current receivables.

Trade payables

All trade payables owed by the group are non interest bearing and are stated at their nominal value.

Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk; further details are disclosed in note 21. Derivatives are initially recognised at fair value at the date of the contract and remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised immediately in profit or loss unless the derivative is designated and qualifies as a hedging instrument (either as a cash flow hedge or a fair value hedge), in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and the derivative is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives which are designated and qualify as cash flow hedges are deferred in equity to the extent attributable to the components of the derivatives that are effective hedges and as such offset the exchange fluctuations relating to the principal amount of the liability or asset being hedged. Other gains or losses arising are recognised immediately in profit or loss, and are included as 'other gains and losses' in the consolidated income statement. Hedge accounting is discontinued when the group revokes the hedging relationship or the hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at discontinuance remains in equity.

Fair value hedges

The group does not hold any derivatives designated and qualifying as fair value hedges.

Equity instruments

Instruments are classified as equity instruments if the substance of the relative contractual arrangements evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. The preference shares of the company are regarded as equity instruments.

Share-based payments

The group has applied the requirements of IFRS 2 "Share-based payments" which contain transitional provisions which provide certain exemptions for grants of equity instruments prior to 7 November 2002.

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are set out in the "Accounting policies (group)" section of this annual report, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual values of assets and amounts of liabilities may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Biological assets

The method by which the directors have determined the fair value of the group's biological assets is described in "Accounting policies (group)" above. Because of the inherent uncertainty associated with such fair valuation methodology and in particular the volatility of prices for the group's agricultural produce and the absence of a liquid market for oil palm plantations, the carrying value of the biological assets may differ from their realisable value (see note 13).

Derivatives

As described in note 21, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for the specific features of the instruments.

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the group's liability to income tax both current and deferred having regard to the uncertainties relating to the availability of tax losses and to the future periods in which timing differences are likely to reverse as well as uncertainty regarding recoverability of tax paid against disputed items in an assessment of tax on an Indonesian group company.

2. Revenue

	2008 $'000	2007 $'000
Sales of goods	79,107	57,581
Revenue from services	523	19
	79,630	57,600
Other operating income	4	6
Investment income	1,185	1,641
Total revenue	80,819	59,247

In 2008 four customers accounted for respectively 38 per cent, 12 per cent, 11 per cent and 11 per cent of the group's sales of goods (2007: two customers each accounted for 24 per cent).

The crop of oil palm fresh fruit bunches for 2008 amounted to 450,906 tonnes (2007: 393,217 tonnes). The fair value of the crop of fresh fruit bunches was $51,840,000 (2007: $39,269,000), based on the price formula determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of segment net assets and additions to property, plant and equipment by geographical area of location. No analyses are provided by business segment as the group had only one operating business segment in 2008.

	2008 $'m	2007 $'m
Sales by geographical destination:		
United Kingdom and Continental Europe	–	–
Indonesia	45.8	28.1
Rest of Asia	33.3	29.5
	79.1	57.6
Carrying amount of segment net assets by geographical area of asset location:		
United Kingdom and Continental Europe	25.3	38.2
Indonesia	137.3	110.4
	162.6	148.6
Additions to property, plant and equipment by geographical area of asset location:		
United Kingdom and Continental Europe	–	0.4
Indonesia	24.7	14.8
	24.7	15.2

4. Agricultural produce inventory movement

The net (loss) / gain arising from changes in fair value of agricultural produce inventory represents the movement in the fair value of that inventory less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

5. Profit before tax

	2008 $'000	2007 $'000
Profit before tax has been arrived at after charging / (crediting):		
Net foreign exchange gains	(2,936)	(232)
Movement in inventories (at historic cost)	(509)	(2,161)
Depreciation of property, plant and equipment	2,420	1,846
Amortisation of prepaid operating lease rentals	57	144

The amount payable to Deloitte LLP for the audit of the company's financial statements was $100,000 (2007: $137,000). Amounts payable to Deloitte LLP for the audit of accounts of associates of the company pursuant to legislation were $25,000 (2007: $10,000).

Amounts payable to Deloitte LLP for other services were $2,000 (2007: for services pursuant to legislation - $46,000; for other services - $2,000). In 2007 the services pursuant to legislation were in respect of corporate finance work, and as such the amounts paid for those services were added to the capitalised costs of the relevant transactions.

Amounts payable to an associate of Deloitte LLP for the audit of a subsidiary's financial statements were $9,000 (2007: $nil).

Notes to the consolidated financial statements continued

5. Profit before tax - continued

	2008 $'000	2007 $'000
Earnings before interest, tax, depreciation and amortisation and net biological gain:		
Operating profit	40,563	49,386
Depreciation and amortisation	2,477	1,990
Net biological loss / (gain)	2,660	(8,030)
	45,700	43,346

6. Staff costs, including directors

	2008 Number	2007 Number
Average number of employees (including executive directors):		
Agricultural - permanent	3,418	3,059
Agricultural - temporary	2,578	2,488
Head office	7	7
	6,003	5,554

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	15,095	11,869
Social security costs	1,394	598
Pension costs	922	707
	17,411	13,174

7. Investment revenues

	2008 $'000	2007 $'000
Interest on bank deposits	1,185	1,641
	1,185	1,641

8. Finance costs

	2008 $'000	2007 $'000
Interest on bank loans and overdrafts	886	1,916
Interest on US dollar notes	2,564	2,360
Interest on sterling notes	5,349	4,443
Interest on obligations under finance leases	16	23
Other finance charges	1,149	439
	9,964	9,181
Amount included as additions to biological assets	(4,525)	(5,164)
	5,439	4,017

Amount included as additions to biological assets arose on the general pool of borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 35.5 per cent (2007: 43.7 per cent); there is no directly related tax relief.

9. Tax

	2008 $'000	2007 $'000
Current tax:		
UK corporation tax	28	–
Foreign tax (includes prior years $3,065,000) (2007: $nil)	13,478	5,318
Total current tax	13,506	5,318
Deferred tax:		
Current year (includes prior years $1,588,000) (2007: $nil)	2,825	9,466
Attributable to a decrease in the rate of tax	(5,795)	229
Total deferred tax	(2,970)	9,695
Total tax	10,536	15,013

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 30 per cent (2007: 30 per cent) and the deferred tax provision reflects the proposed reduction in the corporate taxation rate from 30 per cent to 25 per cent, the effect of which is also disclosed below and in note 26. For the United Kingdom, the taxation provision reflects the reduction in the corporation tax rate from 30 per cent to 28 per cent for 2008/09, the effect of which is also disclosed below and in note 26. Prior year adjustments of $3,065,000 in respect of foreign tax and $1,588,000 in respect of deferred tax arise as a result of an Indonesian assessment of tax on a group company's 2006 profits at a higher level than was originally expected. Full provision has been made for this assessment although significant elements are disputed.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 $'000	2007 $'000
Profit before tax	36,309	47,010
Notional tax at the UK standard rate of 28.5 per cent (2007: 30 per cent)	10,348	14,103
Tax effect of the following items:		
Expenses not deductible in determining taxable profit	673	161
Deferred tax asset not recognised	(61)	–
Non taxable income	(349)	(10)
Overseas tax rates in excess of UK standard rate	531	–
Overseas withholding taxes, net of relief	625	541
Tax effect of unrelieved tax losses not recognised for deferred tax	22	6
Tax effect of change in rate on UK net deferred tax (liability)/asset	(23)	229
Tax effect of change in rate on Indonesian deferred tax liabilities	(5,773)	–
Additional tax provisions	4,543	–
Other	–	(17)
Tax expense at effective tax rate for the year	10,536	15,013

Notes to the consolidated financial statements continued

10. Dividends	2008 $'000	2007 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	2,360	2,266
Ordinary dividends	1,498	1,279
	3,858	3,545

An interim dividend of 1.5p per ordinary share in lieu of final in respect of the year ended 31 December 2008 was paid on 30 January 2009. In accordance with IAS10 "Events after the reporting period", this dividend has not been included in the 2008 financial statements.

11. Earnings per share	2008 $'000	2007 $'000
Earnings for the purpose of basic and diluted earnings per share *	23,833	29,453

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	32,574	32,044
Effect of dilutive potential ordinary shares	761	837
Weighted average number of ordinary shares for the purpose of diluted earnings per share	33,335	32,881

12. Goodwill and acquisition of subsidiary	2008 $'000	2007 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

Goodwill

The goodwill arose from the acquisition by the company in 2006 of a minority interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations, for a consideration of $19 million. The goodwill of $12.6 million at the balance sheet date is considered by the directors to be supported fully by the assessment of the value in use for the oil palm business in Indonesia, which is regarded by the directors to be the cash generating unit to which the goodwill applies.

Acquisition of subsidiary

On 11 July 2008 the group acquired 95 per cent of the issued share capital of PT Putra Bongan Jaya ("PBJ") for a cash consideration of $3,295,000. At the date of acquisition PBJ held a land permit (izin locasi) in respect of 19,837 hectares in the West Kutai district of East Kalimantan, Indonesia. The transaction has been accounted for by the purchase method of accounting. The book values of the net assets acquired were:

	$'000
Prepaid operating lease rentals	3,330
Cash and cash equivalents	137
End of year	3,467

Satisfied by:	
Cash payment by group	3,295
Subscription by Indonesian investor	172
	3,467

12. Goodwill and acquisition of subsidiary - continued

	$'000
Net cash outflow arising on acquisition:	
Cash consideration	3,467
Cash and cash equivalents acquired	(137)
	3,330

The directors consider that the fair value of the assets acquired equalled their book value.

Since the date of acquisition, PBJ has not contributed any revenues to the group, and has recorded a loss before tax of approximately $15,000.

13. Biological assets

	2008 $'000	2007 $'000
Beginning of year	166,347	143,496
Additions to planted area and costs to maturity including finance costs (see note 8)	15,763	14,821
Transfers from property, plant and equipment (see note 14)	339	–
Transfers to non-current receivables	(44)	–
Net biological (loss) / gain	(2,660)	8,030
End of year	179,745	166,347
Net biological (loss) / gain comprises:		
Gain arising from movement in fair value attributable to physical changes	(2,660)	8,030
Gain arising from movement in fair value attributable to price changes	–	–
	(2,660)	8,030

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". The valuation assumed a discount rate of 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies (2007: 17.5 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies) and a twenty year average CPO price of $431 per tonne, net of Indonesian export duties, FOB Samarinda (2007: twenty year average of $414 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

The valuation of the group's biological assets would have been reduced by $9,505,000 (2007: $10,310,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $8,887,000 (2007: $10,915,000) if the discount rates assumed had been increased by 1 per cent and by $18,987,000 (2007: $20,595,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by $5.

As a general rule, all palm products produced by the group are sold for immediate delivery but on occasions, when market conditions appear favourable, the group makes forward sales. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2007, the group had outstanding forward sales of crude palm oil ("CPO") at the rate of 2,000 tonnes per month for the two year period to 31 December 2009 at prices equivalent to $620 per tonne, CIF Rotterdam, for the period January to June 2008 (inclusive), $870 per tonne for the period July to December 2008 (inclusive) and $860 per tonne for the period January to December 2009 (inclusive). During 2008, the group delivered 12,000 tonnes of CPO against forward sale contracts at the equivalent of a CIF Rotterdam price of $620 per tonne; the remaining forward sales were cancelled by mutual agreement with the counterparty.

13. Biological assets - continued

At the balance sheet date, biological assets of $161,452,000 (2007: $141,571,000) had been charged as security for bank loans (see note 22) but there were otherwise no restrictions on titles to the biological assets (2007: none). Expenditure approved by the directors for the development of immature areas in 2009 amounts to $13,000,000 (prior year - $28,000,000).

14. Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2007	5,707	17,226	13,159	36,092
Additions	8,123	1,392	5,665	15,180
Exchange differences	–	2	–	2
Disposals	(6)	(460)	–	(466)
Transfers (see note 13)	4,178	11,430	(15,608)	–
At 31 December 2007	18,002	29,590	3,216	50,808
Additions	10,227	3,135	11,303	24,665
Exchange differences	–	(183)	–	(183)
Disposals	–	(268)	–	(268)
Transfers (see note 13)	7,064	30	(7,433)	(339)
At 31 December 2008	35,293	32,304	7,086	74,683
Accumulated depreciation:				
At 1 January 2007	874	6,573	–	7,447
Charge for year	295	1,551	–	1,846
Exchange differences	–	3	–	3
Eliminated on disposals	(2)	(258)	–	(260)
At 31 December 2007	1,167	7,869	–	9,036
Charge for year	637	2,206	–	2,843
Exchange differences	–	(102)	–	(102)
Eliminated on disposals	–	(163)	–	(163)
At 31 December 2008	1,804	9,810	–	11,614
Carrying amount:				
End of year	33,489	22,494	7,086	63,069
Beginning of year	16,835	21,721	3,216	41,772

The depreciation charge for the year includes $423,000 (2007: $nil) which has been capitalised as part of the additions to biological assets.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $174,000 (2007: $413,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $2,394,000 (2007: $4,093,000).

15. Prepaid operating lease rentals

	2008 $'000	2007 $'000
Cost:		
Beginning of year	9,188	5,401
Additions	4,535	3,787
End of year	13,723	9,188
Accumulated depreciation:		
Beginning of year	365	221
Charge for year	270	144
End of year	635	365
Carrying amount:		
End of year	13,088	8,823
Beginning of year	8,823	5,180

The depreciation charge for the year includes $212,000 (2007: $nil) which has been capitalised as part of the additions to biological assets.

Additions in the year include $3,330,000 (2007: $nil) in respect of a subsidiary acquired during the year.

Land title certificates have been obtained in respect of areas covering 46,841 hectares (2007: 35,216 hectares).

16. Indonesian coal rights

The balance of $5,386,000 (2007: $nil) comprises interest bearing loans made to two Indonesian companies which own rights in respect of certain coal concessions in East Kalimantan, Indonesia. Arrangements are in place for a substantial part of the economic benefit from exploiting these concessions to accrue to the group, after the cost of servicing the loans. The loans are repayable as and when the cash resources of the debtor companies permit, but in any event on 31 December 2020.

17. Subsidiaries

A list of the principal subsidiaries, including the name, country of incorporation and proportion of ownership is given in note (i) to the company's individual financial statements.

Certain borrowings incurred by PT REA Kaltim Plantations ("REA Kaltim") limit the payment of dividends by REA Kaltim to a proportion of REA Kaltim's annual profit after tax.

18. Inventories

	2008 $'000	2007 $'000
Agricultural produce	4,879	8,603
Engineering and other operating inventory	7,916	4,437
	12,795	13,040

The fair value of the agricultural produce as at 31 December 2007 took into account certain outstanding forward sales contracts for delivery in 2008 at a CIF Rotterdam price of $620 per tonne of crude palm oil as disclosed in note 13. At 31 December 2008 there were no outstanding forward sales contracts of crude palm oil.

19. Trade and other receivables

	2008 $'000	2007 $'000
Due from sale of goods	712	444
Prepayments and advance payments	1,200	853
Advance payment of taxation	6,199	1,149
Deposits and other receivables	761	855
	8,872	3,301

Sales of goods are normally made on a cash against documents basis with an average credit period (which takes account of customer deposits as disclosed in note 29) of nil days (2007: 6 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with a maturity of one month or less.

21. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 22 to 24, cash and cash equivalents and equity attributable to shareholders of the parent, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 30 to 33. The group is not subject to externally imposed capital requirements.

The directors' policy in regard to the capital structure of the group is to seek to enhance returns to holders of the company's ordinary shares by meeting a proportion of the group's funding needs with prior charge capital and to constitute that capital as a mix of preference share capital and borrowings from banks and development institutions and from the public debt market, in proportions which suit, and as respects borrowings having a maturity profile which suits, the assets that such capital is financing. In so doing, the directors regard preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

Net debt to equity ratio

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication, they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. The target for 31 December 2009 is 60 per cent (2008: 60 per cent). Net debt, equity and the net debt to equity ratio at the balance sheet date were as follows:

	2008 $'000	2007 $'000
Debt *	108,264	86,257
Cash and cash equivalents	(30,316)	(34,216)
Net debt	77,948	52,041

* being the book value of long and short term borrowings as detailed in the table below under "Fair value of financial instruments".

	2008	2007
Equity (including minority interests)	162,611	148,633
Net debt to equity ratio	47.9%	35.0%

21. Financial instruments - continued

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in the "Accounting policies (group)" section of this annual report.

Categories of financial instruments

Non-derivative financial assets as at 31 December 2008 comprised loans and receivables and cash and cash equivalents amounting to $32,448,000 (2007: $35,953,000).

Non-derivative financial liabilities as at 31 December 2008 comprised liabilities at amortised cost amounting to $102,920,000 (2007: $93,032,000).

Derivative financial instruments at 31 December 2008 comprised instruments in designated hedge accounting relationships at fair value amounting to a liability of $26,517,000 (2007: an asset of $168,000).

Financial risk management objectives

The group's head office provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the group through internal reports which permit the degree and magnitude of such risks to be assessed. These risks include market risk, credit risk and liquidity risk.

The group seeks to reduce risk by using, where appropriate, derivative financial instruments to hedge risk exposures. The use of derivative financial instruments is governed by group policies set by the board of directors of the company. The board also sets policies on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The financial market risks to which the group is primarily exposed are those arising from changes in interest rates and foreign currency exchange rates.

The group's policy as regards interest rates is to borrow whenever possible at fixed interest rates, but where borrowings are raised at floating rates the directors would not normally seek to hedge such exposure. The sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate ("SIBOR") (2007: 2.75 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2008 (other than the cross currency interest rate swap) which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) increase of approximately $174,000 (2007: pre-tax profit (and equity) increase of $183,000).

21. Financial instruments - continued

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the investment that is financed with pounds sterling denominated equity. The group's policy is to maintain limited balances in pounds sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months and a balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements but, otherwise, to keep all cash balances in US dollars. The group does not normally otherwise hedge its revenues and costs arising in currencies other than the US dollar.

At the balance sheet date, the group had non US dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $100,000 on the net sterling denominated non-derivative monetary items (excluding the sterling notes which are hedged) (2007: gain of $400,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $125,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2007: negligible effect).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. At 31 December 2008, 71 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and the balance with a bank with a Moody's prime rating of P3. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2008 and 2007 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors of the company, which has established an appropriate framework for the management of the group's short, medium and long-term funding and liquidity requirements. Within this framework, the board continuously monitors forecast and actual cash flows and endeavours to maintain adequate liquidity in the form of cash reserves and borrowing facilities while matching the maturity profiles of financial assets and liabilities. Undrawn facilities available to the group at balance sheet date are disclosed in note 22.

The board reviews the cash forecasting models for the operation of the plantations and compares these with the forecast outflows for debt obligations and projected capital expenditure programmes for the plantations, applying sensitivities to take into account perceived major uncertainties. In their review, the directors place the greatest emphasis on the cash flow of the first two years.

Non-derivative financial instruments

The following tables detail the contractual maturity of the group's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the group's financial liabilities based on the earliest dates on which the group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

21. Financial instruments - continued

2008	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	5.8%	11,119	2,180	–	13,299
US dollar notes	8.0%	2,250	2,250	36,750	41,250
Sterling notes	10.4%	5,035	4,944	77,983	87,962
Trade and other payables, and customer deposits		8,332	–	–	8,332
Obligations under finance leases	10.0%	62	65	–	127
		26,798	9,439	114,733	150,970

2007	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	8.4%	4,167	11,344	2,181	17,692
US dollar notes	8.0%	2,250	2,250	39,000	43,500
Sterling notes	10.4%	4,096	4,034	69,908	78,038
Trade and other payables		3,989	–	–	3,989
Obligations under finance leases	10.0%	127	143	–	270
		14,629	17,771	111,089	143,489

At 31 December 2008, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $30,316,000 (2007: $34,216,000) carrying a weighted average interest rate of 3.1 per cent (2007: 4.5 per cent) all having a maturity of under one year.

Derivative financial instruments

The following table details the amounts due in respect of the group's derivative financial instruments. These arise under the cross currency interest rate swaps ("CCIRS") described in note 25. The cash flows are settled gross and, therefore, the table takes no account of sterling receipts under the CCIRS.

	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
At 31 December 2008	7,197	7,197	104,607	119,001
At 31 December 2007	4,570	4,596	70,474	79,640

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables, as at the balance sheet date.

21. Financial instruments - continued

	2008 Book value $'000	2008 Fair value $'000	2007 Book value $'000	2007 Fair value $'000
Cash and deposits +	30,316	30,316	34,216	34,216
Debt - within one year +	(10,750)	(10,750)	(3,000)	(3,000)
Debt - after more than one year +	(2,167)	(2,167)	(12,917)	(12,917)
Finance leases o	(114)	(114)	(238)	(238)
US dollar notes o	(29,632)	(21,382)	(29,389)	(28,050)
Sterling notes o	(50,234)	(44,906)	(41,604)	(42,248)
Cross currency interest rate swap - hedge against principal liabilities	(15,367)	(15,367)	891	891
Net debt	(77,948)	(64,370)	(52,041)	(51,346)
Cross currency interest rate swap - hedge against interest liabilities	(11,150)	(11,150)	(723)	(723)
	(89,098)	(75,520)	(52,764)	(52,069)

+ bearing interest at floating rates
o bearing interest at fixed rates

The fair values of cash and deposits and bank debt approximate their carrying values since these carry interest at current market rates. The fair value of the US dollar notes and sterling notes is based on the latest price at which the notes were traded prior to the balance sheet date. The fair value of the sterling notes at 31 December 2007 was estimated by the directors, based on a yield comparision with UK government debt issues.

The fair value of the cross currency interest rate swaps ("CCIRS") has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2008 at fair value resulted in a loss of $26,517,000 (2007: gain of $168,000) which has been taken directly to equity, net of related tax relief. A 50 basis points movement in the spread between the assumed yield curves for pounds sterling and the US dollar would increase or decrease the valuation by approximately $2,783,000.

22. Bank loans

	2008 $'000	2007 $'000
Bank loans	12,917	15,917
The bank loans are repayable as follows:		
On demand or within one year	10,750	3,000
Between one and two years	2,167	10,750
Between three and five years	–	2,167
	12,917	15,917
Amount due for settlement within 12 months (shown under current liabilities)	10,750	3,000
Amount due for settlement after 12 months	2,167	12,917
	12,917	15,917

All bank loans are denominated in US dollars and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2008 was 5.8 per cent (2007: 8.4 per cent). Bank loans of $12,917,000 (2007: $15,417,000) are secured on substantially the whole of the assets and undertaking of PT REA Kaltim Plantations ("REA Kaltim"), amounting to $265 million (2007: $215 million), and are the subject of an unsecured guarantee by the company. The banks are entitled to have recourse to their security on usual banking terms.

22. Bank loans - continued

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $4.0 million (2007: $7.0 million).

On 23 April 2009, REA Kaltim concluded a new agreement with its bankers which will increase its bank facilities to $15.5 million and significantly extend the average maturity of drawings under the facility. In addition, the interest rate formula now includes an allowance for the bankers' cost of funds.

23. Sterling notes

The sterling notes comprise £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V.. Of these, £15 million nominal were issued during 2008 for cash at a subscription price of 99.8682 per cent of par. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

The repayment obligation in respect of the sterling notes of £37 million ($53.3 million) is hedged by a forward foreign exchange contract for the purchase of £37 million and for the sale of $68.6 million and is carried in the balance sheet net of the unamortised balance of the note issuance costs.

If a person or group of persons acting in concert obtains the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company, each holder of sterling notes has the right to require that the notes held by such holder be repaid at 101 per cent of par, plus any interest accrued thereon up to the date of completion of the repayment.

24. US dollar notes

The US dollar notes comprise US$30 million nominal of 7.5 per cent dollar notes 2012/14 of the company, and are stated net of the unamortised balance of the note issuance costs. Unless previously redeemed or purchased and cancelled by the company, the US dollar notes are redeemable in three equal annual instalments commencing on 31 December 2012.

Pursuant to a supplemental rights agreement dated 23 January 2006, between the company and the holders of $19 million nominal of US dollar notes, the latter have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a 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.

25. Hedging instruments

At 31 December 2008 the group had outstanding three contracts for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 (2007: the group had outstanding a contract for the forward purchase of £22 million and sale of $42.9 million maturing in 2015) pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes"). Either party to the CCIRS has the option to terminate the contracts on the fifth anniversary of the initial trade date. During the year, the hedges were effective in hedging the related sterling interest payment obligations on the sterling notes up to and including 31 December 2015 and in providing the £37 million required to meet the principal repayment obligations. The fair value of the CCIRS has been described in note 21.

26. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and the movements thereon during the year and preceding year:

Deferred tax assets / (liabilities)	Property, plant and equipment $'000	Biological assets $'000	Income/ expenses* $'000	Share based payments $'000	Tax losses $'000	Total $'000
At 1 January 2007	(15,760)	(14,960)	1,488	1,895	4,765	(22,572)
(Charge)/credit to income for the year	(2,325)	(2,409)	(3,048)	–	(1,684)	(9,466)
(Charge)/credit to equity for the year	–	–	–	551	98	649
Exchange differences	496	–	(81)	24	37	476
Effect of change in tax rate - income statement	–	–	(10)	–	(219)	(229)
Effect of change in tax rate - equity	–	–	–	(166)	(41)	(207)
Transfers	(12)	–	377	–	(365)	–
At 31 December 2007	(17,601)	(17,369)	(1,274)	2,304	2,591	(31,349)
(Charge) / credit to income for the year	(3,847)	798	291	–	93	(2,665)
(Charge) / credit to equity for the year	–	–	(1,529)	(1,444)	(2)	(2,975)
Exchange differences	3,209	–	(348)	(322)	(219)	2,320
Effect of change in tax rate - income statement	3,318	2,913	(371)	–	(225)	5,635
Effect of change in tax rate - equity	–	–	–	–	–	–
Transfers	–	–	1,243	–	(1,243)	–
At 31 December 2008	(14,921)	(13,658)	(1,988)	538	995	(29,034)
Deferred tax assets	7	–	904	538	995	2,444
Deferred tax liabilities	(14,928)	(13,658)	(2,892)	–	–	(31,478)
At 31 December 2008	(14,921)	(13,658)	(1,988)	538	995	(29,034)
Deferred tax assets	18	–	904	2,304	2,591	5,817
Deferred tax liabilities	(17,619)	(17,369)	(2,178)	–	–	(37,166)
At 31 December 2007	(17,601)	(17,369)	(1,274)	2,304	2,591	(31,349)

* included as income, recognised gains or expenses for reporting purposes, but not yet charged to or allowed for tax, allowed for tax but not yet recognised for reporting purposes.

At the balance sheet date, the group had unused tax losses including a share based payments provision of $5.9 million (2007: $17.4 million) available to be applied against future profits. A deferred tax asset of $1,533,000 (2007: $4,895,000) has been recognised in respect of these losses.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was $3,750,000 (2007: $4,750,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The deferred tax asset in respect of tax losses assumes that losses for tax purposes incurred by the plantation companies in Indonesia may be carried forward for five years.

The proposed reduction in UK corporation tax from 30 per cent to 28 per cent (for 2008/2009) has reduced the net amount of UK deferred tax assets by $nil (2007: $436,000).

26. Deferred tax - continued

The proposed reduction in Indonesian corporation tax from 30 per cent to 25 per cent has reduced the net amount of Indonesian deferred tax liabilities by $5,635,000.

27. Obligations under finance leases

	2008 $'000	2007 $'000
Minimum lease payments:		
Amounts payable under finance leases		
Within one year	62	127
In the second to fifth years inclusive	65	143
	127	270
Less: Future finance charges	13	32
Present value of lease obligations	114	238
Representing:		
Amounts payable under finance leases		
Within one year	53	111
In the second to fifth years inclusive	61	127
Present value of lease obligations	114	238
Amount due for settlement within 12 months (shown under current liabilities)	53	111
Amount due for settlement after 12 months	61	127
	114	238

The group leases certain items of plant and equipment under finance leases. The average lease term is one to two years (2007: one to two years). Interest rates are fixed at the contract rate. The average borrowing rate for the year was 10.0 per cent (2007: 10.0 per cent). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Most lease obligations are denominated in Indonesian rupiahs. Obligations under finance leases are secured by the lessor's charge over the leased assets.

28. Other loans and payables

	2008 $'000	2007 $'000
Retirement benefit obligations (see note 37)	3,078	3,800
Other	612	686
	3,690	4,486
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	380	449
In the second year	373	478
In the third to fifth years inclusive	1,159	1,439
After five years	1,778	2,120
Amount due for settlement after 12 months	3,310	4,037
	3,690	4,486

28. Other loans and payables - continued	2008 $'000	2007 $'000
Amounts of liabilities by currency:		
Sterling	2,117	3,219
US dollar	509	544
Indonesian rupiah	1,064	723
	3,690	4,486

Further details of the retirement benefit obligations which relate to the R.E.A. Pension Scheme (the "Scheme") are set out in note 37. The directors estimate that the fair value of retirement benefit obligations (being the retirement benefit funding obligations agreed with the trustees of the Scheme following the 2005 actuarial valuation referred to in note 37) and of other loans and payables approximates their carrying value.

29. Trade and other payables	2008 $'000	2007 $'000
Trade purchases and ongoing costs	6,071	3,331
Customer deposits	2,021	–
Other tax and social security	282	230
Accruals	3,499	2,851
Other payables	240	658
	12,113	7,070

The average credit period taken on trade payables is 37 days (2007: 29 days).

The directors estimate that the fair value of trade payables approximates their carrying value.

30. Share capital	2008 £'000	2007 £'000
Authorised (in pounds sterling):		
17,500,000 - 9 per cent cumulative preference shares of £1 each (2007: 14,500,000)	17,500	14,500
41,000,000 - ordinary shares of 25p each (2007: 41,000,000)	10,250	10,250
	27,750	24,750
Issued and fully paid (in US dollars):	$'000	$'000
14,902,954 - 9 per cent cumulative preference shares of £1 each (2007: 13,600,000)	26,484	24,069
32,573,856 - ordinary shares of 25p each (2007 – 32,573,856)	14,230	14,230
	40,714	38,299

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

30. Share capital - continued

Changes in share capital:

- on 6 June 2008, the authorised share capital was increased from £24,750,000 to £27,750,000 by the creation of an additional 3,000,000 9 per cent cumulative preference shares.
- on 24 September 2008, 1,302,954 9 per cent cumulative preference shares were issued, credited as fully paid, at par to ordinary shareholders by way of capitalisation of share premium account.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

31. Capital reserves

	Share premium account $'000	Special reserve $'000
At 1 January 2007	19,506	3,254
Issue of new ordinary shares	12,731	–
Issue of new preference shares	108	–
Capitalisation issue of new preference shares	(2,016)	–
Expenses of issue	(542)	–
Release of special reserve	–	(3,254)
At 31 December 2007	29,787	–
Capitalisation issue of new preference shares	(2,415)	–
Expenses of issue	(50)	–
At 31 December 2008	27,322	–

Pursuant to a reduction of capital confirmed by the High Court and effective on 17 May 2006, the company's capital redemption reserve was cancelled and the amount standing to the credit of the company's share premium account was reduced by £2,760,334 ($4,747,774); as a result the sum of £6,000,000 ($10,320,000) was credited to a special reserve. The company issued fresh capital in 2006 and 2007 of more than £6,000,000 and, as permitted under the terms of the undertaking given to the High Court, transferred in 2006 and 2007 sums of an equivalent amount from special reserve to the company's profit and loss account.

32. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2007	–	(8,890)	(8,890)
Exchange translation differences arising during the year	–	(426)	(426)
Fair value loss on cash flow hedge	(506)	–	(506)
At 31 December 2007	(506)	(9,316)	(9,822)
Reclassification of balances brought forward	624	(624)	–
Exchange translation differences arising during the year	-	12,191	12,191
Fair value loss on cash flow hedge	(18,757)	–	(18,757)
At 31 December 2008	(18,639)	2,251	(16,388)

33. Retained earnings	2008 $'000	2007 $'000
Beginning of year	89,492	57,679
Profit for the year	23,833	29,453
Ordinary dividend paid	(1,498)	(1,279)
Transfer from special reserve	–	3,254
Share based payment - deferred tax (charge) / credit	(1,444)	385
End of year	110,383	89,492

34. Minority interest	2008 $'000	2007 $'000
Beginning of year	877	600
Share of (loss) / profit after taxation	(420)	278
Share of items taken directly to equity	(89)	–
Exchange translation differences	40	(1)
Acquisition of PT Putra Bongan Jaya (5 per cent minority)	172	–
End of year	580	877

35. Reconciliation of operating profit to operating cash flows	2008 $'000	2007 $'000
Operating profit	40,563	49,386
Depreciation of property, plant and equipment	2,420	1,846
Decrease / (increase) in fair value of agricultural produce inventory	4,214	(5,578)
Amortisation of prepaid operating lease rentals	57	144
Amortisation of sterling and US dollar note issue expenses	287	242
Biological loss / (gain)	2,660	(8,030)
Loss on disposal of property, plant and equipment	2	6
Operating cash flows before movements in working capital	50,203	38,016
Increase in inventories (excluding fair value movements)	(5,091)	(2,555)
(Increase) / decrease in receivables	(581)	1,283
Increase / (decrease) in payables	5,329	(583)
Exchange translation differences	1,036	(1,330)
Cash generated by operations	50,896	34,831
Taxes paid	(13,122)	(3,165)
Interest paid	(5,474)	(3,490)
Net cash from operating activities	32,300	28,176

Additions to property, plant and equipment during the year amounting to $nil (2007: $171,000) were financed by new finance leases.

36. Movement in net borrowings

	2008 $'000	2007 $'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents	3,930	(3,601)
Net decrease in borrowings	3,000	24,833
	6,930	21,232
Amortisation of US dollar notes issue expenses	(94)	(94)
Issue of sterling notes less amortised expenses	(27,073)	(13,587)
Lease repayments	90	268
New leases	–	(171)
	(20,147)	7,648
Currency translation differences	9,607	843
Net borrowings at beginning of year	(52,041)	(60,532)
Net borrowings at end of year	(62,581)	(52,041)

37. Pensions

The company is the principal employer of the R.E.A. Pension Scheme (the "Scheme") and a subsidiary company is a participating employer. The Scheme is a multi-employer contributory defined benefit scheme with assets held in a trustee-administered fund, which has participating employers outside the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets) and does not prepare valuations on an IAS 19 basis, the group accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2005. This method was adopted in the previous valuation, as at 1 January 2003, as this was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2005 the Scheme showed an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,549,000. The technical provisions were calculated using assumptions of an annual investment return of 6.1 per cent pre-retirement and 4.7 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 2.75 per cent in respect of accruals to 31 December 2005 and 2.5 per cent thereafter. The rate of increase in the retail price index was assumed to be 2.75 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PA92 tables with short cohort improvements and that members would take the maximum cash sums permitted on retirement from April 2006. Had the scheme been valued at 31 December 2005 using the projected unit method and the same assumptions, the overall deficit would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with the principal and participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme. The Scheme has further agreed a recovery plan with the employers which sets out the basis for the recovery of the deficit shown by the 31 December 2005 valuation through the payment of quarterly additional contributions over the period from 1 January 2007 to 31 December 2015, after taking account of the additional contributions paid in 2006 under the 1 January 2003 valuation.

37. Pensions - continued

The normal contributions paid by the group in 2008 were £67,000 - $123,000 (2007: £63,000 - $128,000) and represented 24.9 per cent (2007: 24.9 per cent) of pensionable salaries. For 2009, the contribution rate will remain at 24.9 per cent. The additional contribution applicable to the group for 2008 was £212,000 - $390,000 (2007: £206,000 - $414,000) and for 2009 the additional contribution will rise to £218,000 - $314,000. The total additional contributions for the period from 2009 to 2015 are £1,438,000 - $2,071,000. A liability of £1,399,000 - $2,015,000 (2007: £1,546,000 - $3,077,000) for these additional contributions adjusted for the time value of money has been recognised under retirement benefit obligations (see note 28) with an equal charge to income.

The next actuarial valuation which is to be made as at 31 December 2008 has not yet been prepared and the assumptions to be applied to the valuation have yet to be agreed. It is proposed to apply members' mortality based on PNXA00 and the investment return will be based on current market rates. Principally as a result of a decline in the value of listed equity investments in the last quarter of 2008, the market value of the assets held by the Scheme at 31 December 2008 is likely to have fallen short of the value that would have been expected at that date by the 31 December 2005 valuation to an extent that may increase the deficit to be funded by the group by £1.3 million - $1.9 million but as the outcome of the 31 December 2008 valuation is not known, no further provision has been made for additional contributions in respect of any increase in the deficit.

The company has a contingent liability for additional contributions payable by other (non-group) employers in the Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made.

38. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are dealt with in the company's individual financial statements. The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

	2008 $'000	2007 $'000
Short term benefits	941	1,083
Post employment benefits	94	98
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	1,035	1,181

39. Rates of exchange

	2008 Closing	2008 Average	2007 Closing	2007 Average
Indonesia rupiah to US dollar	10,950	9,757	9,419	9,166
US dollar to pound sterling	1.44	1.84	1.99	2.01

40. Events after the reporting period

An interim dividend of 1.5p per ordinary share in lieu of final in respect of the year ended 31 December 2008 was paid on 30 January 2009. In accordance with IAS10 "Events after the reporting period" this dividend has not been included in these financial statements. As described in note 22, PT REA Kaltim Plantations has concluded a new agreement with its bankers.

41. Contingent liabilities

As disclosed in note 37, the company has a contingent liability for additional contributions payable by other (non-group) employers in the R.E.A. Pension Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made. In addition, as also disclosed in note 37, the company has a potential exposure to any increase in deficit which may arise as a result of the forthcoming actuarial valuation of the R.E.A. Pension Scheme as at 31 December 2008 and which the group may be required to fund to an extent.

Auditors' report (company)

Independent auditors' report to the members of R.E.A. Holdings plc

We have audited the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2008 which comprise the balance sheet, the movement in total shareholders' funds, the statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2008 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information presented in the review of the group that is cross referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the directors' report, the chairman's statement and the review of the group. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It

also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

DELOITTE LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
27 April 2009

Company balance sheet

as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed and non-current assets			
Investments	(i)	58,932	47,596
Tangible fixed assets	(ii)	99	112
Deferred tax asset	(vi)	371	2,390
		59,402	50,098
Current assets			
Debtors	(iii)	1,118	842
Cash		5,633	11,419
Total current assets		6,751	12,261
Creditors: amounts falling due within one year	(iv)	(1,213)	(1,084)
Net current assets		5,538	11,177
Total assets less current liabilities		64,940	61,275
Creditors: amounts falling due after more than one year			
US dollar notes	(v)	(20,576)	(14,767)
Provision for liabilities and charges	(vi)	(75)	(670)
Net assets		44,289	45,838

	Note	2008 £'000	2007 £'000
Capital and reserves			
Share capital	(vii)	23,046	21,743
Share premium account	(viii)	14,675	16,005
Exchange reserve	(viii)	181	213
Profit and loss account	(viii)	6,387	7,877
Total shareholders' funds		44,289	45,838

Approved by the board on 27 April 2009 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Movement in total shareholders' funds

for the year ended 31 December 2008

	2008 £'000	2007 £'000
Total recognised gains / (losses) for the year	575	(472)
Dividends to preference shareholders	(1,283)	(1,127)
Dividends to ordinary shareholders	(814)	(637)
Issue of new ordinary shares by way of placings and open offer	–	6,750
Issue of new preference shares by way of placings	–	1,118
Issue costs of ordinary shares, preference shares and debt securities	(27)	(266)
	(1,549)	5,366
Shareholders' funds at beginning of year	45,838	40,472
Shareholders' funds at end of year	44,289	45,838

Statement of total recognised gains and losses

for the year ended 31 December 2008

	2008 £'000	2007 £'000
Profit / (loss) for the year	1,392	(340)
Share based payment - deferred tax (charge) / credit	(785)	191
Currency translation loss taken direct to reserves	(32)	(323)
	575	(472)

Accounting policies (company)

Accounting convention

Separate financial statements of R.E.A. Holdings plc (the "company") are required by the Companies Act 1985; as permitted by that act they have been prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP"). The principal accounting policies have been applied consistently and are unchanged from the previous year.

The accompanying financial statements have been prepared under the historical cost convention.

By virtue of section 230 of the Companies Act 1985, the company is exempted from presenting a profit and loss account. Equally, no cash flow statement has been prepared, as permitted by FRS 1 (revised 1996) "Cash flow statements".

Investments

The company's investments in its subsidiaries are stated at cost less any provision for impairment. Impairment provisions are charged to the profit and loss account. Dividends declared by subsidiaries are credited to the company's profit and loss account.

Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Differences arising on the translation of foreign currency borrowings have been offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, net of any related taxation. All other exchange differences are included in the profit and loss account.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows: land and buildings (short leasehold) - 10 years, and fixtures and fittings - 5 years.

Notes to the company financial statements

(i) Investments

	2008 £'000	2007 £'000
Shares in subsidiaries	27,876	24,139
Loans to subsidiaries	31,056	23,457
	58,932	47,596

	£'000
Beginning of year	47,596
Additions to shares in and loans to subsidiaries	7,689
Exchange translation difference arising on foreign currency hedge	3,647
End of year	58,932

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of dormant subsidiaries and UK subsidiary sub-holding companies are not shown.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	100
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group services	Ordinary	100

The entire shareholdings in Makassar Investments Limited, R.E.A. Services Limited and REA Finance B.V. are held direct by the company. All other shareholdings are held by subsidiaries.

(ii) Tangible fixed assets

	Land and buildings (short leasehold) £'000	Fixtures and fittings £'000	Total £'000
Cost:			
Beginning of year	85	45	130
Additions	4	–	4
End of year	89	45	134
Accumulated depreciation:			
Beginning of year	9	9	18
Charge for year	8	9	17
End of year	17	18	35
Carrying amount:			
End of year	72	27	99
Beginning of year	76	36	112

(iii) Debtors	2008 £'000	2007 £'000
Trade debtors	11	5
Amount owing by group undertakings	1,011	761
Other debtors	35	22
Prepayments and accrued income	61	54
	1,118	842

(iv) Creditors: amounts falling due within one year	2008 £'000	2007 £'000
Amount owing to group undertakings	810	285
Other creditors	62	34
Accruals	341	765
	1,213	1,084

(v) Creditors: amounts falling due after more than one year	2008 £'000	2007 £'000
US dollar notes:		
Amounts due between two and five years	13,717	4,917
Amounts due after five years	6,859	9,850
	20,576	14,767

The US dollar notes comprise US$30 million (2007: US$30 million) nominal of 7.5 per cent dollar notes 2012/14 issued by the company ("US dollar notes") and are stated net of the unamortised balance of the issuance costs. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

As disclosed in note (ix), the company's US dollar notes are designated as a hedge against the exchange translation exposure in respect of an equivalent amount of the company's investment in subsidiaries whose functional currency is the US dollar.

Pursuant to a supplemental rights agreement dated 23 January 2006 between the company and holders of $19 million nominal of US dollar notes, those holders have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a 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.

(vi) Deferred tax asset and provision for liabilities and charges	2008 £'000	2007 £'000
Deferred tax:		
Beginning of year	(1,720)	(1,580)
Net amount debited / (credited) to profit and loss account	652	(350)
Net amount debited to reserves	772	210
End of year	(296)	(1,720)

(vi) Deferred tax asset and provision for liabilities and charges - continued

	2008 £'000	2007 £'000
Included in provisions for liabilities and charges	75	670
Included in non-current assets	(371)	(2,390)
Net deferred tax asset at end of year	(296)	(1,720)

	2008 £'000	2007 £'000
The provision for deferred tax is made up as follows:		
Timing differences	75	670
Tax losses available	(371)	(2,390)
Undiscounted deferred tax	(296)	(1,720)

(vii) Share capital

	2008 £'000	2007 £'000
Authorised:		
17,500,000 - 9 per cent cumulative preference shares of £1 each (2007: 14,500,000)	17,500	14,500
41,000,000 - ordinary shares of 25p each (2007: 41,000,000)	10,250	10,250
	27,750	24,750
Called-up and fully paid:		
14,902,954 - 9 per cent cumulative preference shares of £1 each (2007: 13,600,000)	14,903	13,600
32,573,856 - ordinary shares of 25p each (2007: 32,573,856)	8,143	8,143
	23,046	21,743

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

Changes in share capital:

- on 6 June 2008, the authorised share capital was increased from £24,750,000 to £27,750,000 by the creation of an additional 3,000,000 9 per cent cumulative preference shares.
- on 24 September 2008, 1,302,954 9 per cent cumulative preference shares were issued, credited as fully paid, at par to ordinary shareholders by way of capitalisation of share premium account.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

Notes to the company financial statements continued

(viii) Movement in reserves

	Share premium account £'000	Exchange reserve £'000	Profit and loss account £'000
Beginning of year	16,005	213	7,877
Dividends to preference shareholders	–	–	(1,283)
Dividends to ordinary shareholders	–	–	(814)
Capitalisation issue of new preference shares	(1,303)	–	–
Expenses of issue	(27)	–	–
Retained profit for the year	–	(32)	607
End of year	14,675	181	6,387

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company has not been presented. The profit before dividends recognised in the company's profit and loss account is £1,392,000 (2007: loss £340,000).

(ix) Financial instruments and risks

Financial instruments

The company's financial instruments comprise borrowings, cash and liquid resources and in addition certain debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the company's operations. The table below provides an analysis of the book and fair values of financial instruments excluding debtors and creditors at balance sheet date.

	2008 Book value £'000	2008 Fair value £'000	2007 Book value £'000	2007 Fair value £'000
Cash and deposits	5,633	5,633	11,419	11,419
US dollar notes	(20,576)	(15,104)	(14,767)	(14,095)
Net debt	(14,943)	(9,471)	(3,348)	(2,676)

The fair value of the US dollar notes reflects the last price at which transactions in those notes were effected prior to the year end.

Risks

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks. These policies have remained unchanged since the beginning of the year. It is and was throughout the year, the company's policy that no trading in financial instruments be undertaken.

(ix) Financial instruments and risks - continued

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2008, the company had outstanding US$30 million of 7.5 per cent dollar notes 2012/14. In accordance with a decision of the board of the company at the time of issue of the first tranche of these notes, such notes are treated as a currency hedge against the company's long term loans to subsidiaries (which are denominated in US dollars) and the additional investment in Makassar Investments Limited that was acquired during 2006 for a consideration of US$19 million. The company's policy towards currency risk is not to cover the long-term exposure in respect of its investment in subsidiaries (whose operations are mainly conducted in US dollars) to the extent that this exposure relates to the component of investment that is financed with sterling denominated equity.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2008 carried interest at fixed rates and on the basis of the company's analysis, it is estimated that a rise of one percentage point in all interest rates would give rise to an increase of approximately £52,000 (2007: £115,000) in the company's interest revenues in its profit and loss account.

(x) Pensions

The company is the principal employer of the R.E.A. Pension Scheme (the "Scheme") and a subsidiary company is a participating employer. The company has no active members of the Scheme, which is a multi-employer contributory defined benefit scheme with assets held in a trustee-administered fund and has participating employers outside the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the participating employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets), pension costs are being accounted for as if the Scheme were a defined contribution scheme. The subsidiary company that is a participating employer and other participating employers in the Scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover any deficit. The company made no payments to the Scheme in 2008 (2007: nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme; such liability will only arise if such other participating employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made.

A non-FRS 17 valuation of the scheme was last prepared, using the attained age method, as at 31 December 2005. This was considered to be the most appropriate method of calculating contributions to cover future service benefits at 31 December 2005. Had the scheme been valued at 31 December 2005 using the projected unit method and the same other assumptions, the overall deficit would have been similar. The principal actuarial assumptions adopted in this valuation were annual pre-retirement and post-retirement returns of respectively 6.1 per cent and 4.7 per cent, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions and in the retail price index of 2.75 per cent. The overall valuation deficit applicable to all participants was £3,549,000 which is being funded by special contributions by participating employers over the period to 31 December 2015.

The next actuarial valuation which is to be made as at 31 December 2008 has not yet been prepared and the assumptions to be applied to the valuation have yet to be agreed. It is proposed to apply members' mortality based on PNXA00 and the investment return will be based on current market rates. Principally as a result of a decline in the value of listed equity investments in the last quarter of 2008, the market value of the assets held by the Scheme at 31 December 2008 is likely to have fallen short of the value that would have been expected at that date by the 31 December 2005 valuation to an extent that may increase the scheme deficit by £2.6 million. It is not known what the overall outcome of the 31 December 2008 valuation will be.

Notes to the company financial statements continued

(xi) Related party transactions

	2008 £'000	2007 £'000
Aggregate directors' remuneration:		
Salaries and fees	467	466
Benefits	42	33
Annual bonus	–	40
Gains on exercise of share options	–	–
	509	539

During 2008 and 2007, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report", the costs of which are included in the table above.

(xii) Rates of exchange

See note 39 to the consolidated financial statements.

(xiii) Commitments

The company has guaranteed a principal obligation of £8,970,000 (2007: £7,747,000) in respect of bank loans to PT REA Kaltim Plantations, a principal obligation of £nil (2007: £251,000) in respect of bank loans to PT Sasana Yudha Bhakti and a principal obligation of £37 million (2007: £22 million) relating to the outstanding 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. In each case, the company has also guaranteed all interest payments arising. The company's contingent liability for pension contributions is disclosed in note (x) above.

(xiv) Post balance sheet events

An interim dividend of 1.5p per ordinary share in lieu of final in respect of the year ended 31 December 2008 was paid on 30 January 2009. In accordance with FRS 21 "Events after the Balance Sheet Date", this dividend has not been included in these financial statements.

Notice of annual general meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action to take, you should consult an independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you are not so resident, another appropriately authorised independent adviser. If you have sold or otherwise transferred all your ordinary shares in R.E.A. Holdings plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the forty ninth annual general meeting of the company will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 4 June 2009 at 10.00 am to consider and, if thought fit, to pass the following resolutions:

As ordinary business (resolutions 1 to 13 (inclusive) of which will be proposed as ordinary resolutions and resolution 14 of which will be proposed as a special resolution):

1 To receive the company's annual accounts for the year ended 31 December 2008, together with the directors' report, the directors' remuneration report and the auditors' report.

2 To approve the directors' remuneration report for the year ended 31 December 2008.

3 To re-elect as a director Mr R M Robinow, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance and submits himself for re-election.

4 To re-elect as a director Mr J C Oakley, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either of such meetings, retires in accordance with the articles of association and submits himself for re-election.

5 To re-elect as a director Mr D J Blackett, who was appointed as a director since the last annual general meeting and submits himself for re-election.

6 To re-elect as a director Mr J M Green-Armytage, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance and submits himself for re-election.

7 To re-elect as a director Mr J R M Keatley, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance and submits himself for re-election.

8 To re-elect as a director Mr L E C Letts, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance and submits himself for re-election.

9 To re-elect as a director Mr C L Lim, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either of such meetings, retires in accordance with the articles of association and submits himself for re-election.

10 To re-appoint Deloitte LLP, chartered accountants, as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company.

11 To authorise the directors to fix the remuneration of the auditors.

12 That the directors of the company be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise all the powers of the company to allot relevant securities (as defined in sub-section (2) of section 80 of the Companies Act 1985), other than 9 per cent cumulative preference shares, up to an aggregate nominal amount of £2,106,536, such authority to expire at the conclusion of the annual general meeting to be held in 2010 (or on 31 August 2010, whichever is the earlier), save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry.

13 That the directors of the company be and are hereby further generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the company to allot 9 per cent cumulative preference shares up to an aggregate nominal amount of £2,597,046, such authority to expire at the conclusion of the annual general meeting to be held in 2010 (or on 31 August 2010, whichever is the earlier), save that the company may

before such expiry make an offer or agreement which would or might require 9 per cent cumulative preference shares to be allotted after such expiry.

14 That, subject to the passing of resolution 12 set out in the notice of annual general meeting of the company convened for 4 June 2009,

(i) the directors of the company be and are hereby empowered in accordance with section 95 of the Companies Act 1985 (I) to allot equity securities (as defined in sub-section (2) of section 94 of the Companies Act 1985) and (II) to sell relevant shares (as defined in sub-section (5) of section 94 of the Companies Act 1985) held by the company as treasury shares for cash pursuant to the authority conferred on them by such resolution 12 as if sub-section (1) of section 89 of the Companies Act 1985 did not apply to the allotment or sale, such power to expire at the conclusion of the annual general meeting of the company to be held in 2010 (or on 31 August 2010, whichever is the earlier) provided that this power is limited to:

(a) the allotment of equity securities in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory; and

(b) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal value of £407,173; and

(ii) the power conferred on the directors by paragraph (i) above includes the power to make an offer or agreement which would or might require equity securities to be allotted after the power has expired.

As special business (to be proposed as a special resolution):

15 That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2009

Notes

The sections of the accompanying "Directors' report" entitled "Power to issue share capital", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 12 to 15 set out in the above notice.

A member of the company entitled to attend and vote at the meeting may appoint one or more proxies to exercise all or any of his or her rights to attend, speak and vote at the meeting provided that each proxy is appointed to exercise the rights attaching to (a) different share(s) held by the member. A form of proxy is enclosed with this notice. A proxy need not be a member of the company. The appointment of a proxy will not prevent a member from attending and voting at the meeting should he or she wish to do so.

A member wishing to appoint more than one proxy may photocopy the accompanying form of proxy. One form must be completed for each proxy appointed and each such form must show the name of the proxy appointed, the number of shares the subject of the appointment and whether multiple appointments are being made. The aggregate number of shares in relation to which any member appoints proxies may not exceed the number of shares held by that member. All forms must be signed and should be returned together in the same envelope.

In order to be valid, a form of proxy (and any power of attorney, or other authority under which it is signed, or a notarially certified copy of such power or authority) must be deposited at the offices of the company's registrars, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 10.00 am on 2 June 2009 or in the case of CREST members lodged electronically in accordance with the procedures set out below.

To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the appropriate CREST

message (a "CREST Proxy Instruction") must be received by the company's registrars (ID: RA10) by 10.00 am on 2 June 2009. For the purpose of this deadline, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST applications host) from which the company's registrars are able to retrieve the message. CREST personal members or other CREST sponsored members, and those CREST members that have appointed voting service provider(s), should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings referenc should be made to the CREST manual. CREST members, and where applicable their CREST sponsors or voting service providers, should note that CREST does not make available special procedures in CREST for a particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertified Securities Regulations 2001.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have the right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

The company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that in relation to securities held in dematerialised form only those holders of shares registered in the register of members of the company at 6.00 pm on 2 June 2009 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00 pm on 2 June 2009 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Copies of letters setting out the terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

As at the date of this notice, the issued share capital of the company comprises 32,573,856 ordinary shares and 14,902,954 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 32,573,856 as at the date of this notice.