

Final Results

R.E.A.Hldgs PLC 27 April 2006 R.E.A. HOLDINGS PLC 27 April 2006 Commentary on preliminary results for the year ended 31 December 2005

Adoption of International Financial Reporting Standards

----- The accompanying financial information for the year ended 31 December 2005 is presented in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union. The comparative financial statements for the year ended 31 December 2004 were prepared in accordance with UK GAAP and have been restated in accordance with IFRS. The main aspects of the company's consolidated financial statements that have been affected by the change from UK GAAP to IFRS were summarised in the company's interim report for the six months ended 30 June 2005 under "Application of International Financial Reporting Standards". The new treatment of biological assets (comprising oil palm plantings and nurseries) is of particular importance because, under IFRS, depreciation is no longer charged on such assets but the assets 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. Results ----- Profit before tax for 2005, as shown in the accompanying consolidated income statement, amounted to £9,622,000 representing a modest increase over the profit before tax of the preceding year, as restated under IFRS, of £9,191,000. The increase in 2005 profit over that of 2004 would have been greater were it not that the 2005 profit has been struck after making full provision of some £1.2 million for the previously unprovided component of the post year end litigation settlement referred to under "Litigation" below. Important components of both the 2005 results and the restated results for 2004 are gains on revaluation of biological assets. These gains, which were not included in reported profits under UK GAAP, amounted to £4,133,000 in 2005 against £2,986,000 in 2004. The increased gain in 2005 reflected the continuing extension planting programme and the increasing maturity of existing planted areas. A higher rate of tax charge in 2005 than in the preceding year meant that the profit for the year after tax fell short of that of 2004 at £6,299,000 against £6,537,000. The higher rate of tax charge was caused by a number of movements in the deferred tax accounts. The group continues to have substantial tax losses available to it, mainly due to capital and other expenditure being allowed for tax ahead of being expensed for reporting purposes. Current tax actually payable by the group amounted to only £79,000 in 2005 (£118,000 in 2004). Operations ----- The fresh fruit bunch ("FFB") crop for 2005 was 313,355 tonnes, representing 94.7 per cent of budget and some 6.6 per cent ahead of the 293,883 tonnes harvested in 2004. The failure to achieve the budgeted FFB crop is attributed by the directors to the level of rain during 2005 which averaged 4,739 mm across the operational areas as against some 3,877 mm in the preceding year (itself representing a relatively high level of precipitation). Especially heavy rains during April and early May 2005 caused the Belayan and Mahakam rivers to flood and resulted in significant operational disruption. There were then further heavy rains in November and December (with nearly 1,000 mm in November). Whilst these later rains did not cause the degree of disruption experienced in April and May 2005, they did cause delays to harvesting resulting in a harvesting backlog at the end of December 2005. The CPO and palm kernel extraction rates for 2005 were, respectively, 23.4 per cent and 4.0 per cent as compared with the rates of 24.3 and 4.1 per cent achieved in 2004. The directors attribute the reduction in CPO extraction rate and sub-optimal palm kernel extraction rate to the very damp conditions during 2005 inhibiting the weevil activity upon which cross-pollination depends, leading to poor fruit set. Construction of the group's second oil mill and first palm kernel crushing plant is proceeding well and the mill and plant should be completed substantially on schedule during the second half of

2006. The new mill will have a similar eventual capacity to the existing mill. The additional milling capacity will be required from 2007 onwards as areas that are currently immature progressively come into cropping. The kernel crushing plant will process all palm kernel output from both the existing and the new mill to produce palm kernel oil and expeller. The group had planned further extension planting of oil palms during 2005 totalling 4,500 hectares. Land clearing operations were delayed by representations from certain affected local villagers seeking to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected individuals had been successfully allayed, by abnormally high rainfall in the last quarter of 2005. As a result, land clearing completed by end 2005 amounted only to 2,250 hectares. The balance of 2,250 hectares of the 2005 development programme has therefore been carried forward. Given that a limited delay in the transfer of oil palm seedlings from nursery to field should have no effect on the maturing of the resultant plantings, the directors are confident that the late completion of the 2005 programme will have no material long term adverse effect on future crops. For 2006, it is planned to complete the balance of the 2005 programme and to develop a further 3,750 hectares giving a total target of 6,000 hectares. Seedling availability at, and planting preparatory work completed by, end 2005 were sufficient to permit implementation of this programme and development to-date is progressing satisfactorily. Provided that CPO prices continue at current levels or better, the directors, while recognising that such a target is ambitious, intend that in 2007 the group should aim to plant an additional 7,000 hectares. Litigation ----- In September 2005, the group commenced mediated discussions with Mr M E Zukerman and associated interests (the "MEZ group") regarding the longstanding dispute between the group and the MEZ group. The discussions were successfully concluded in January 2006 with the group and the MEZ group agreeing to settle all actual and threatened litigation claims between them. Under the terms of settlement, the group paid \$6 million to the MEZ group in settlement of various MEZ group claims (including claims for amounts totalling \$3.7 million for which the group had made provision by 30 June 2005) and the company acquired the 12.3 per cent minority interest in the group's Indonesian operations owned by the MEZ group for a consideration comprising \$19 million nominal of 7.5 per cent dollar notes 2012/14 of the company ("dollar notes"). Finance ----- On 17 August 2005, the company submitted to shareholders and holders of other securities of the company proposals for a reorganisation of the company's former 4 per cent convertible loan stock 2012. The proposals were duly approved on 12 September 2005 and resulted in the outstanding £3,050,497 nominal of convertible loan stock being exchanged for a total of 5,002,587 new ordinary shares and \$4,972,281 nominal of dollar notes. Later in September 2005, the group was successful in finalising the arrangement of new loan facilities in Indonesia totalling US\$45 million with a consortium of three banks. An immediate drawdown was made of \$38 million of the facilities of which some \$29 million was applied in repaying bank indebtedness and the balance was used to augment the group's working capital. A further \$3 million has been drawn in 2006 to-date. Also in 2006 to-date, a total of £10.24 million, net of estimated expenses, has been raised by issues at 260p per share of 1,372,000 new ordinary shares pursuant to a placing completed on 22 February 2006 and 2,828,000 new ordinary shares pursuant to a placing and open offer completed on 19 April 2006. The proceeds of the first placing were substantially applied in refunding the \$6 million paid to the MEZ group pursuant to the litigation settlement. The balance of the monies raised has been earmarked to fund the planned extension planting programme. Subject to confirmation of the reduction of capital referred to under "Dividends" below and to satisfaction of other usual conditions, the company has agreed to issue 3,000,000 new 9 per cent cumulative preference shares at a price of 105p per share pursuant to a further placing. If that issue becomes unconditional, it is proposed that the group structure should be simplified by winding up the company's subsidiary, Makassar Participation plc, in which a proportion of the preference share capital is held by third parties. The net proceeds of the preference share placing would be utilised in substantially funding the net cash outflow from the group that discharge of the liquidation entitlement of such third party holders would entail. The transactions described in the immediately preceding paragraphs have together significantly enhanced both the group's capital base and its immediate cash resources and facilities. Whilst future

operating cash flows will be dependent upon a number of factors, the directors expect that such cash flows and the available cash resources and facilities will be sufficient to enable the group to fund both the planned development programme up to 31 December 2007 and debt repayments up to that date.

Dividends ----- The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2005 were duly paid. The developments described under "Litigation" and "Finance" above have reduced the uncertainties faced by the group and improved its financial stability. Nevertheless the group will continue to face significant potential demands on cash for both the planned continuing development of the group's operations and to meet scheduled repayments under the Indonesian consortium loan facilities. Accordingly, the directors do not recommend the payment of a dividend on the ordinary shares in respect of 2005. The directors remain committed to the restoration of ordinary dividends as soon as they are confident that the group's cash flow can safely support the payment of such dividends. To reduce the possibility that a technical limitation might inhibit the future payment of dividends (especially dividends on the preference shares) which the directors would, from a commercial viewpoint, feel able to recommend, the directors have proposed a £6 million reduction in the capital of the company and the release of that amount to distributable reserves. This proposal was approved by shareholders and warrant holders on 18 April 2006 but remains subject to confirmation by the High Court. An application for such confirmation is expected to be heard on 18 May 2006.

Prospects ----- The extension planting programme in respect of which planting out commenced in 2004 will not make any worthwhile contribution to crops until 2007. Accordingly, the group is budgeting for an FFB crop in 2006 of 353,000 tonnes. Crops to end March 2006 were approximately 15,000 tonnes ahead of budget but, as the monthly phasing of each year's crop varies from year to year, this should not be taken as indicating any likelihood that the FFB crop for 2006 as a whole will be above budget. Moreover, an element of the surplus over budget reflects the harvesting backlog at end December 2005. Higher operating costs in US dollar terms and, in particular, the increased cost of diesel following the removal of government subsidies, will have some adverse effect on operating margins going forward. Against this, recent weeks have seen some softening in world freight rates which, if maintained, should be reflected in the differential between CPO prices CIF Rotterdam and FOB East Kalimantan, such differential having been at historically high levels for most of 2005. Moreover, the directors believe that the outlook for CPO demand is positive given the increasing use of CPO as a bio-fuel. Accordingly the directors believe that, absent further weather abnormalities, 2006 will prove a satisfactory year for the group. Beyond 2006, the directors foresee significant year on year increases in output as new plantings under the extension planting programme progressively come into production and move to full yield. This should be positive for the group's future.

Consolidated income statement for the year ended 31 December 2005

	2005	2004
Revenue	14,944	16,052
Cost of sales	(6,641)	(6,072)
Gross profit	8,303	9,980
Net gain arising from changes in fair value of biological assets	4,133	2,986
Other operating income	6	1,059
Distribution costs	(190)	(32)
Administrative expenses	(1,572)	(2,918)
Other operating expenses	(285)	
Operating profit	10,680	10,790
Investment revenues	98	157
Finance costs	(1,156)	(1,756)
Profit before tax	9,622	9,191
Tax	(3,323)	(2,654)
Profit for the year	6,299	6,537
Attributable to:		
Ordinary shareholders	4,520	4,783
Preference shareholders	765	639
Minority interests	1,014	1,115
	6,299	6,537

Earnings per 25p ordinary share
Basic 20.0p 24.2p
Diluted 16.7p 18.0p

All operations in both years are continuing

Consolidated balance sheet at 31 December 2005

	2005	2004
Non-current assets:		
Biological assets	68,192	51,765
Property, plant and equipment	10,565	7,497
Prepaid operating lease rentals	661	294
Deferred tax assets	5,619	7,642
Non-current receivables	1,193	490
Total non-current assets	86,230	67,688
Current assets:		
Inventories	2,017	1,744
Trade and other receivables	2,854	2,817
Assets held for resale	1,067	
Cash and cash equivalents	5,007	1,061
Total current assets	9,878	6,689
Total assets	96,108	74,377
Current liabilities:		
Trade and other payables	(7,122)	(3,512)
Current tax liabilities	(141)	(121)

Obligations under finance leases (354) (318) Bank loans (2,180) (2,680) Other loans and payables (149) (142) ----- Total current liabilities (9,946) (6,773) ----- Non-current liabilities: Bank loans (19,913) (12,790) Convertible loan stock - (2,337) US dollar notes (2,852) - Deferred tax liabilities (17,372) (14,971) Obligations under finance leases (190) (347) Other loans and payables (1,702) (1,823) ----- Total non-current liabilities (42,029) (32,268) ----- Total liabilities (51,975) (39,041) ----- Net assets 44,133 35,336 ===== Equity: Share capital 14,788 13,533 Share premium account 2,627 3,885 Capital redemption reserve 3,240 3,240 Warrants 1,162 1,164 Translation reserve (5,858) (9,129) Equity reserve - 370 Retained earnings 21,668 17,148 ----- 37,627 30,211 Minority interests 6,506 5,125 ----- Total equity 44,133 35,336 ===== Consolidated statement of recognised income and expense for the year ended 31 December 2005 2005 2004

	2005	2005	2004
£'000 £'000 Exchange translation differences	3,522	(2,726)	
Tax on items taken directly to equity	352	125	
Net income / (loss) recognised directly in equity	3,874	(2,601)	
Profit for the year	6,299	6,537	
Total recognised income and expense for the year	10,173	3,936	
Attributable to:			
Ordinary shareholders	7,791	2,621	
Preference shareholders	765	639	
Minority interests	1,617	676	
Reconciliation of movements in equity for the year ended 31 December	10,173	3,936	
£'000 £'000 Total recognised income and expense for the year	10,173	3,936	
Issue of new ordinary shares arising on conversion of convertible loan stock	7	541	
Issue of new ordinary shares arising on restructuring of the balance of the convertible loan stock and write off of debt and equity issuance costs (384) - Issue of preference shares -	1,600		
Issue of ordinary shares on exercise of warrants	2	47	
Dividends to minority shareholders of a subsidiary (236) (163) Dividends to preference shareholders (765) (639) -----	8,797	5,322	
Equity at beginning of year	35,336	30,014	
Equity at end of year	44,133	35,336	
Consolidated cash flow statement for the year ended 31 December	2005	2005	2004
£'000 £'000 Operating profit	10,680	10,790	
Depreciation of property, plant and equipment	806	639	
Amortisation of prepaid operating lease rentals	19	9	
Biological gain (4,133) (2,986) Gain on disposal of property, plant and equipment (5) (7) Loss on disposal of investment	9		
Operating cash flows before movements in working capital	7,376	8,445	
Increase in inventories (116) (218) (Increase) / decrease in receivables (647) 12 Increase / (decrease) in payables	2,933		
Exchange differences (505) 367 ----- Cash generated by operations	9,041	5,694	
Taxes paid (59) (118) Interest paid (1,008) (800) ----- Net cash from operating activities	7,974	4,776	
Investing activities Interest received	98	54	
Proceeds on disposal of property, plant and equipment	15	15	
Purchases of property, plant and equipment (2,931) (1,048) Expenditure on biological assets (5,660) (2,264) Expenditure on operating leases (332) (108) Purchase of investments - (1,067) Disposal of investments	1,058		
Net cash used in investing activities (7,752) (4,418) ----- Financing activities Preference dividends paid (765) (639) Repayment of borrowings (17,463) (11,108) Repayment of obligations under finance leases (158) (411) Proceeds of issue of ordinary share capital less expenses (138) 47 Proceeds of issue of preference share capital less expenses - 1,600 New borrowings raised	22,093	4,654	
Issue costs of US dollar notes (49) - ----- Net cash used in financing activities	3,520	(5,857)	
Cash and cash equivalents Net increase / (decrease) in cash and cash equivalents	3,742	(5,499)	
Cash and cash equivalents at beginning of year	1,061	6,790	
Effect of exchange rate changes	204	(230)	
Cash and cash equivalents at end of year	5,007	1,061	
Accounting policies ----- The accounting policies are as set out in the company's interim report for the six months ended 30 June 2005, and have been consistently applied. Notes ----- Revenue 2005 2004 ----- £'000 £'000 Sales of goods	14,770	15,939	
Revenue from services	174	113	
Other operating income	6	1,059	
Investment income	98	157	
Total revenue	15,048	17,268	
Other operating income includes a gain on repurchase of debt of £nil (2004 £876,000). Segment information ----- In the table below, the group's sales are analysed by geographical origin 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 has only one business segment. 2005 2004 £'m £'m

Sales by geographical market: United Kingdom 0.2 0.1 Europe 0.6 - Indonesia 8.8 11.4 Rest of Asia 5.3 4.6 ----- 14.9 16.1 ===== Carrying amount of segment net assets by geographical area of asset location: United Kingdom 0.9 (3.2) Indonesia 43.2 38.5 ----- 44.1 35.3 ===== Biological assets 2005 2004 ----- £'000 £'000 Beginning of year 51,765 50,128 Additions to planted area and costs to maturity 5,660 2,264 Net biological gain 4,133 2,986 Exchange differences 6,592 (3,613) Transfers 42 - ----- End of year 68,192 51,765 ===== Finance costs 2005 2004 ----- £'000 £'000 Interest on bank loans and overdrafts 1,302 1,065 Interest on convertible loan stock 95 211 Interest on US dollar notes 94 - Interest on other loans 168 252 Interest on obligations under finance leases 64 69 ----- 1,723 1,597 Less: Amount included as additions to biological assets (967) (606) ----- 756 991 Other finance charges 277 26 Exchange loss on repayment of long term intra-group foreign currency loans 123 739 ----- 1,156 1,756 ===== 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 40.6 per cent (2004 - 31.3 per cent). Tax 2005 2004 --- £'000 £'000 Current tax: UK corporation tax - - Foreign tax 79 118 ----- Total current tax 79 118 ----- Deferred tax: Current year 3,244 2,536 Attributable to an increase in the rate of tax - - ----- Total deferred tax 3,244 2,536 ----- Total tax 3,323 2,654 ===== Dividends 2005 2004 ----- £'000 £'000 Amounts recognised as distributions to equity holders: Preference dividends of 9p per share 765 639 Ordinary dividends - - ----- 765 639 ===== Earnings per share 2005 2004 ----- £'000 £'000 Earnings for the purpose of basic earnings per share being net profit attributable to ordinary shareholders 4,520 4,783 Interest on convertible loan stock (net of tax) 66 148 ----- Earnings for the purpose of diluted earnings per share 4,586 4,931 ===== '000 '000 Weighted average number of ordinary shares for the purpose of basic earnings per share 22,631 19,755 Effect of dilutive potential ordinary shares 4,784 7,656 ----- Weighted average number of ordinary shares for the purpose of diluted earnings per share 27,415 27,411 ===== Events after the balance sheet date ----- The litigation previously commenced or threatened against the company and certain of its directors and subsidiaries by interests associated with Mr M E Zukerman ("the MEZ group") was settled on 23 January 2006. Pursuant to the litigation settlement with the MEZ group: the group paid \$6 million to the MEZ group as additional interest on former loans to the company's subsidiary, PT REA Kaltim Plantations and in settlement of various claims by the MEZ group for fees for past services and financial support; and the company acquired the 12.3 per cent minority interest in the issued ordinary share capital of the company's subsidiary, Makassar Investments Limited, owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of US dollar notes. On 22 February 2006, the company issued 1,372,000 ordinary shares, fully paid, to Mirabaud Pereire Nominees Limited by way of a placing at a subscription price of 260p per share. The net proceeds amounted to £3.44 million. The agreement in respect of the placing was made on 14 February 2006. The closing mid-market price of the existing ordinary shares on 13 February 2006 was 321.5p. On 19 April 2006, the company issued 2,828,000 ordinary shares fully paid at a subscription price of 260p per share. Of these ordinary shares, 1,104,856 were issued pursuant to an open offer and 1,723,144 were issued to Mirabaud Pereire Nominees Limited by way of a placing. The estimated net proceeds amounted to £6.80 million. Financial information and publication of annual report ----- Whilst the financial information included in this preliminary announcement (the "preliminary financial information") has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish its 2005 annual report, incorporating its consolidated financial statements, in early May 2006. The preliminary financial information does not constitute statutory accounts of the company for the years ended 31 December 2004 or 2005, but is derived from those accounts. Statutory accounts for 2004 have been delivered to the Registrar of Companies and those for 2005 will be delivered following the company's 2006

annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 237(2) or (3) of the Companies Act 1985. This announcement was approved by the board of the company on 27 April 2006. The 2006 annual general meeting is being convened for 8 June 2006. This information is provided by RNS The company news service from the London Stock Exchange