

# Prospectus

R.E.A.Hldgs PLC 22 March 2006 Introduction ----- R.E.A. Holdings plc announces that it is despatching a circular constituting a prospectus (the "circular") to holders of ordinary shares, preference shares and warrants containing proposals that (i) the company raise up to £7.35 million (before expenses) by way of a placing and open offer of up to 2,828,000 new ordinary shares of 25p each in the capital of the company, to be issued fully paid at a subscription price of 260p per share; (ii) the company raise up to a further £3.15 million (before expenses) by way of a placing of up to 3,000,000 new 9 per cent cumulative preference shares of £1 each in the capital of the company, to be issued fully paid at a subscription price of 105p per share; (iii) the terms of the warrants be amended so as to procure the early exercise of warrant rights; and (iv) the capital of the company be reduced by £6 million in aggregate by cancellation of the capital redemption reserve and by reduction of the amount standing to the credit of the share premium account. As implementation of the proposals will require certain approvals from the holders of warrants and from shareholders, notices are set out at the end of the circular convening a meeting of warrant holders and an extraordinary general meeting of the company, both to be held on 18 April 2006 for the purposes of considering and, if thought fit, passing the resolutions necessary to implement the proposals.

Background ----- The entire business of the group is represented by oil palm operations in Indonesia. These operations are owned through Makassar which was established in 1989 to act as a vehicle to fund the setting up and development of the operations. The initial funding was raised principally in the form of equity and preferred capital with the group providing half of the initial equity. The balance of that equity and the entire preferred capital was provided by third party investors. The initial funding was later augmented with further equity capital and loans raised from the then shareholders of Makassar (including the company) and with bank loans sourced from Indonesian banks. In 2001, difficulties arose in the relationship between the company and the principal third party investor in Makassar, the MEZ group, which had at that time capital commitments to Makassar and its subsidiary, REA Kaltim, substantially equivalent to those of the company. These difficulties culminated in November 2001 with the MEZ group initiating legal proceedings in New York against the company and two of its directors. In April 2002, the company acquired the whole of the issued ordinary share capital and a proportion of the issued preference share capital of a newly established company, MP, which, immediately prior to its acquisition by the company, had acquired all of the issued shares of Makassar other than those owned by the company and the MEZ group. This resulted in the company and MP together owning 51 per cent of the issued ordinary share capital of Makassar. Subsequent rights issues by Makassar, in which the company and MP took up their rights entitlements but the MEZ group did not, increased the combined ownership of the issued ordinary share capital of Makassar by the company and MP to 87.7 per cent. During 2004 and 2005, all loans provided to REA Kaltim by, or with the support of, the MEZ group were repaid. Following the Makassar rights issues, the MEZ group threatened legal proceedings in Jersey against the company, MP and those three directors of the company who are also directors of Makassar, on grounds principally that the affairs of Makassar were being conducted in a manner unfairly prejudicial to the interests of the MEZ group. The company in turn indicated that the group was giving consideration to the pursuit of various potential claims against the MEZ group. Following mediated discussions commencing in September 2005, the company and the MEZ group agreed, pursuant to a settlement agreement made on 23 January 2006, to settle all actual and threatened litigation claims between the group and the MEZ group. The settlement agreement was completed on 21 February 2006. Pursuant to its terms: all actual and potential claims relating to Makassar and REA Kaltim between the group and directors of the company on the one part and the MEZ group on the other part were released and the New York proceedings

commenced by the MEZ group were dismissed with each side bearing its own costs; REA Kaltim paid \$6 million to the MEZ group as additional interest on former loans to REA Kaltim 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 Makassar owned by the MEZ group for a consideration comprising the issue by the company to the MEZ group of \$19 million nominal of dollar notes. In addition, pursuant to a supplemental rights agreement signed at the same time as the settlement agreement, it was agreed that, subject to certain limitations, the company has the right, exercisable at any time and from time to time, to purchase the dollar notes issued pursuant to the settlement agreement and that the holders of such dollar notes have the right, exercisable in certain limited situations, to require the company to purchase those dollar notes, in each case 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. The \$6 million cash payment made by REA Kaltim as described above was funded in the first instance from the group's own cash resources. This cash outlay was then replaced by the net cash proceeds of £3.44 million, equivalent to some \$6 million, accruing to the company from the issue of 1,372,000 ordinary shares fully paid at a subscription price of 260p per share by way of a placing completed on 22 February 2006 and arranged on the company's behalf by Mirabaud. Reasons for the proposals

----- Ordinary share placing and open offer Ahead of the negotiations that resulted in the settlement agreement, the group had built up some cash reserve against the possibility that resolution of the actual and threatened litigation claims from the MEZ group would make demands on the group's cash resources. In the event, this precaution proved unnecessary as the cash component of the settlement agreement has been fully financed by the recent placing of 1,372,000 ordinary shares referred to under "Background" above. As a result, the group's immediate financial position is relatively comfortable with current liquidity equivalent to some \$13 million. That liquidity is more than enough for the immediate requirements of the group's established operations. However, the directors believe that the group's ability to utilise its existing land bank and operational base to expand those operations represents a significant opportunity. They propose that the group should capitalise on that opportunity by accelerating its previous extension planting plans. Extension planting at the rate now proposed will require additional capital; the ordinary share placing and open offer are designed to provide that capital. In this context, the issue of an additional \$19 million nominal of dollar notes pursuant to the settlement agreement is also relevant. That issue has resulted in a significant increase in the group's net indebtedness; prudence dictates that either such net indebtedness be progressively reduced (albeit that the term of the indebtedness would permit such reduction over an extended period) or the scale of the group's operations be expanded to an extent sufficient to support the continuance of net indebtedness at the increased level. In agreeing the terms of the settlement agreement and the increase in net indebtedness that those terms entailed, the directors had concluded that it would be in the best interests of the company and its shareholders as a whole to expand the group's operations. They remain of that view. As noted under "Introduction" above, it is proposed that the new ordinary shares the subject of the ordinary share placing and open offer be issued at a price of 260p per share. The directors recognise that that price represents a larger discount to the current market value of the existing ordinary shares than might be considered normal for a placing and open offer. However, the market value of the existing ordinary shares was lower in mid January 2006 when the company initiated discussions through Mirabaud with potential institutional placees of new ordinary shares; at that time a price of 260p per share represented a discount of less than 10 per cent to market value. Having obtained informal commitments to the ordinary share placing on the basis of an indicative price of 260p per share, the directors consider that the company should not now go back on those commitments (albeit that they were not legally binding) and seek to renegotiate the issue price. Accordingly, the directors believe that it is in the best interests of the company and its shareholders as a whole to continue with the ordinary share placing and open offer at the price of 260p per share. Preference share placing With the completion of the settlement agreement, the whole of the issued share capital of Makassar is now owned by the company and MP. That simplifies the structure of the group and, in the opinion

of the directors, makes it appropriate to rationalise the structure still further by transferring MP's holdings of Makassar shares into the direct ownership of the company and eliminating MP. MP was acquired in 2002 just ahead of the issue of the company's former 4 per cent convertible loan stock 2012 and was an essential component of the arrangements by which the stock was secured.

Following the exchange of the stock in 2005 for new ordinary shares and dollar notes, the security arrangements in question were released. Thus MP no longer serves any useful purpose.

Furthermore, the fact that some 60 per cent of the preference share capital of MP is held outside the group means that MP complicates the group structure. The preference share placing is proposed with the intention that the net proceeds of that placing will be applied in substantially funding the net cash outflow from the group that would result from winding up MP (being the payment of dividend arrears and repayment of capital to which the third party holders of MP preference shares would be entitled in the winding up). The new preference shares are therefore designed, in effect, to replace the existing minority interest in the preference share capital of MP. Amendment of warrant rights The directors also believe that the continued existence of the warrants as a separate listed security of the company has become an unnecessary complication in the capital composition of the company. The warrants currently stand at a very substantial premium to their exercise price and comprise a small and relatively illiquid issue. The proposal to amend the terms of the warrants is designed to address this situation by procuring the early exercise of the warrants on a basis that is, in the opinion of the directors, fair to both warrant holders and shareholders. Reduction of capital Finally, and as explained in greater detail under "Reduction of capital" below, the directors are proposing that the capital of the company be reduced to the extent of £6 million in aggregate by cancellation of the capital redemption reserve and reduction in the amount standing to the credit of the company's share premium account. This is designed to reduce the likelihood of the company being prevented by legal rather than commercial constraints from paying dividends (particularly preference dividends). Ordinary share placing and open offer -----

Pursuant to the ordinary share placing and open offer, the company is seeking to raise up to £7.35 million (before expenses) by the issue of up to 2,828,000 new ordinary shares fully paid at a price of 260p per share. Mirabaud has agreed with the company that Mirabaud will use its reasonable endeavours to place 2,413,000 of these new ordinary shares on the company's behalf at 260p per share. The balance of 415,000 new ordinary shares are being reserved for issue under the open offer. In addition to the 415,000 new ordinary shares so reserved, 927,331 of the new ordinary shares to be placed will be subject to clawback to meet applications to subscribe new ordinary shares pursuant to the open offer if and to the extent that the number of new ordinary shares for which application is made exceeds 415,000. It is proposed that the 1,485,669 balance of the new ordinary shares the subject of the ordinary share placing be placed firm. The open offer has not been underwritten but is supported to the extent described under "Support for the open offer" below.

Under the open offer, the company is inviting subscription by qualifying holders of up to 1,403,042 new ordinary shares at 260p per share, payable in full on application, on and subject to the terms and conditions set out in the circular and in the applications forms, on the basis of: 1 new ordinary share for every 20 ordinary shares and/or warrants held by them at the close of business on 21 March 2006 and so in proportion for any other number of ordinary shares and/or warrants then held by them. Entitlements to new ordinary shares will be rounded down to the nearest whole number of new ordinary shares. The new ordinary shares to be issued pursuant to the ordinary share placing and open offer will upon issue rank pari passu in all respects with the ordinary shares already in issue. No expenses of or incidental to the ordinary share placing or open offer will be charged to subscribers of new ordinary shares and the new ordinary shares will normally be registered by the company in the names of the applicants therefor free of stamp duty and stamp duty reserve tax. The open offer is, and the ordinary share placing will be, conditional upon, inter alia, the passing of the necessary resolution of the company in general meeting and upon admission of the new ordinary shares to the Official List and to trading on the London Stock Exchange's market for listed securities. The open offer is also conditional upon the agreement between Mirabaud and the company as regards the ordinary share placing remaining in full force and effect until such time as

the open offer becomes otherwise unconditional. Up to that time, any placing commitments pursuant to such agreement may be terminated by Mirabaud under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new ordinary shares or to prejudice the success of the ordinary share placing. The new ordinary shares will be issued in registered form and may be held in uncertificated form. The open offer is being made to holders of warrants on a basis equivalent to that that would have applied had the exercise rights attaching to the warrants been exercisable and duly exercised immediately prior to 21 March 2006. Accordingly, pursuant to the provisions of the instrument constituting the warrants, no adjustment will be made upon completion of the open offer to the terms of exercise attaching to the warrants. Support for the open offer ----- Pursuant to an agreement dated 22 March 2006, the company's largest shareholder, Emba, has agreed, subject to satisfaction of the conditions of the open offer, to take up its entitlements to new ordinary shares under the open offer to the extent of 414,799 new ordinary shares (29.6 per cent of the new ordinary shares the subject of the open offer) representing substantially all of the 415,000 new ordinary shares available for subscription under the open offer that have not been placed subject to clawback. Pursuant to the same agreement, Emba has also undertaken not to take up the balance of its entitlements under the open offer comprising entitlements to subscribe an aggregate of 60,711 new ordinary shares. As a result, the number of placed new ordinary shares that may be the subject of clawback will be 927,331 rather than the theoretical maximum of 988,042 (being the 1,403,042 new ordinary shares the subject of the open offer less the 415,000 new ordinary shares available for subscription under the open offer that have not been placed subject to clawback). The open offer has not been underwritten. The open offer is not, and the ordinary share placing will not be, conditional upon any minimum level of subscriptions being received but successful implementation of the ordinary share placing combined with the undertaking of Emba concerning the open offer would together ensure subscription of substantially all of the new ordinary shares the subject of the ordinary share placing and open offer. The directors (together with persons connected with them within the meaning of section 346 of the Act) intend to take up their full entitlements to new ordinary shares pursuant to the open offer amounting to 50,434 new ordinary shares in aggregate (representing 3.6 per cent of the new ordinary shares the subject of the open offer). Preference share placing ----- Pursuant to the preference share placing, the company is seeking to raise up to £3.15 million (before expenses) by the issue of up to 3,000,000 new preference shares fully paid at a price of 105p per share. The new preference shares will upon issue rank *pari passu* in all respects with the preference shares already in issue save that the dividend payable on the new preference shares on 30 June 2006 will be 21/4p per share. No expenses of or incidental to the preference share placing will be charged to subscribers of new preference shares and the new preference shares will normally be registered by the company in the names of the placees thereof free of stamp duty and stamp duty reserve tax. The preference share placing will be conditional upon, *inter alia*, the passing of the necessary resolution of the company in general meeting, upon the proposed reduction of capital becoming effective (such reduction of capital being conditional upon, *inter alia*, the open offer becoming unconditional) and upon admission of the new preference shares to the Official List and to trading on the London Stock Exchange's market for listed securities. While the agreement between Mirabaud and the company as regards the preference share placing remains unconditional, any placing commitments pursuant to such agreement may be terminated by Mirabaud under certain circumstances being principally breach of warranty by the company or the occurrence of any change in financial, political, economic or market conditions likely to cause a substantial deterioration in the price or value of the new preference shares or to prejudice the success of the preference share placing. The new preference shares will be issued in registered form and may be held in uncertificated form. Warrant rights ----- The company has outstanding 1,548,807 warrants each of which currently entitles the holder to subscribe one ordinary share at a price of 73.5p either by payment of 73.5p in cash or by surrender of 0.735 preference shares. The warrant rights are exercisable on 31 July of each year until 2013. It is proposed that the terms of the



warrants be amended by: reducing the exercise price from 73.5p to 60p so that each warrant would entitle the holder to subscribe one ordinary share at a price of 60p either by payment of 60p in cash or by surrender of 0.60 preference shares; adding two additional warrant exercise dates for this year, namely 31 August 2006 and 29 September 2006; and shortening the period during which each warrant holder may exercise his warrant rights so as to provide that to the extent that such rights are not exercised on or before 29 September 2006 that holder's warrants will be exercised on his behalf by 30 October 2006, the ordinary shares resulting from such exercise sold and the net proceeds of sale, after deduction of the cost of subscribing such ordinary shares, distributed to the holder (provided that such net proceeds exceed £3). These amendments to the warrant terms are intended to procure the early exercise of the warrants while fairly compensating holders of warrants for that effect. The amendments are proposed for the reasons explained under "Reasons for the proposals" above.

Reduction of capital ----- The company is permitted by law to pay dividends on its shares only out of distributable reserves. The level of distributable reserves shown by the balance sheet of the company at 31 December 2004 (being the latest audited balance sheet of the company) amounted to just £1.6 million. The group's profits are currently derived almost entirely from the oil palm operations in Indonesia of the company's subsidiary, REA Kaltim. That subsidiary has substantial local borrowings in Indonesia and the covenants to which those borrowings are subject impose restrictions on the payment by REA Kaltim of dividends and of interest on loans made by the company to REA Kaltim. The company's own profits are materially dependent upon the receipt of such payments. Moreover, even to the extent that the payment of dividends by REA Kaltim is permitted by its local bankers, the availability of tax losses brought forward in REA Kaltim (resulting from accelerated depreciation for tax purposes in respect of the substantial capital expenditure that has been incurred in the establishment of REA Kaltim's operations), would make it, for the time being, fiscally disadvantageous for the group if REA Kaltim were to pay significant dividends. As the servicing cost of the additional \$19 million of dollar notes issued pursuant to the settlement agreement will result in an increase in future charges against the company's own revenues, the directors are concerned to ensure that, if there is an erosion in the company's distributable reserves, such a technical limitation should not inhibit the payment of dividends (especially dividends on the preference shares) which the directors would, from a commercial viewpoint, feel able to recommend. The directors consider that the likelihood of such an occurrence would be significantly reduced by the release to distributable reserves of £6 million in aggregate from the amounts currently standing to the credit of the company's share premium account and capital redemption reserve. Accordingly it is proposed to reduce the capital of the company by cancelling the entire balance of £3,239,666 standing to the credit of the capital redemption reserve and by reducing by £2,760,334 the amount standing to the credit of the share premium account. The proposed reduction of capital is conditional upon the open offer becoming unconditional and upon the passing of the necessary resolutions of warrants holders and shareholders. The proposed reduction of capital is further conditional upon confirmation by the High Court. Subject to, and as soon as practicable following, the passing of the necessary resolutions by shareholders and warrant holders, the company will apply to the High Court for an order providing the required confirmation. It is expected that such an order will be obtained on 18 May 2006. The reduction will not become effective until the order has been registered with the Registrar of Companies. The High Court will require to be satisfied that the interests of creditors will not be prejudiced as a result of the reduction of capital. The company expects that it will be required to give an undertaking to treat the reserve arising on the cancellation of the capital redemption reserve and reduction of the share premium account as a non distributable reserve until all creditors at the time that the reduction of capital takes effect have been discharged or have consented to the reserve becoming distributable. The company expects that it will be permitted to qualify such undertaking so that, to the extent that it raises additional capital after the reduction of capital has become unconditional, the company will immediately be permitted to re-classify as distributable an amount of the non distributable reserve equal to the aggregate of the amount of the increase in the company's paid up share capital and the amount of the increase in the amount standing to the credit of the company's share premium

account. Thus, it is anticipated that full issue of the new preference shares the subject of the preference share placing would result in £3.15 million of the non-distributable reserve becoming distributable. The trust deed constituting the dollar notes contains provisions pursuant to which the trustee for the holders of the dollar notes has irrevocably consented, on behalf of itself and holders of the dollar notes, to a reduction in the capital of the company of the magnitude now proposed and to the release to distributable reserves of the reserve that would thereby be created. The company hopes to obtain similar consents from those other of its creditors to whom obligations are owed that will not fall due for discharge within a short period following the reduction of capital taking effect (including, should the High Court so require, those of REA Kaltim's bankers to whom the company has given a guarantee). Use of proceeds ----- The aggregate proceeds from the issue of new ordinary shares and new preference shares pursuant to the ordinary share placing and open offer and the preference share placing are expected to amount to £10.5 million before expenses and, after deduction of the estimated expenses of the proposals, to £9.88 million. For the reasons given under "Reasons for the proposals", it is proposed that some \$5.6 million of the net issue proceeds should be applied in funding the net cash outflow from the group that would result from winding up MP (being the payment of dividend arrears and repayment of capital to which the third party holders of MP preference shares would be entitled in the winding up currently amounting to \$5.6 million). The balance of the net issue proceeds will initially be used to augment the group's available cash resources and placed on deposit but will be earmarked to fund the group's extension planting programme. It is anticipated that they will be applied for that ultimate purpose over the following twelve months. Because the ordinary share placing and open offer and the preference share placing are conditional, the projected net proceeds from those transactions may not be received. Should that happen, the proposed winding up of MP could be delayed and the group's planned extension planting programme reduced. However, the directors do not believe that such delay or reduction would be in the best interests of the group and certainly any deferral of the planned extension planting programme would negatively impact the group's prospects by reducing the group's future productive capacity. Context of the proposals ----- In the opinion of the directors, implementation of the proposals would represent an important milestone in a restructuring and refinancing of the group that has occurred by stages over an extended period. That period may be treated as having commenced in late 1997 when economic destabilisation in several parts of South East Asia spread to Indonesia and led, in early 1998, to political destabilisation and the resignation of President Soeharto. Much of the Indonesian banking industry became insolvent, foreign capital was withdrawn and the Indonesian rupiah collapsed. As a result, for a time, it became impossible to raise debt finance for investment in Indonesia from conventional financing sources. All of this created major problems for what are now the East Kalimantan operations of the group because, at the time, those operations were still largely immature and were reliant upon bank finance to meet their cash requirements. These problems were further compounded by a fall in the price of CPO which moved from a high of \$705 per tonne in May 1998 to a low of \$234 per tonne in May 2001 (in both cases CIF Rotterdam, as published by Oil World). Faced with these problems, the East Kalimantan operations looked for support to the shareholders of Makassar (which, as noted under "Background" above, had been established in 1989 to hold the operations and fund their development). At this time, the principal shareholders in Makassar were the company and the MEZ group (with equal interests). For a while both supported the East Kalimantan operations so that, over the period from 1998 to early 2001, some \$25 million of funding was provided to the operations by way of direct loans from, or bank loans supported by, the company and the MEZ group (with each providing or supporting approximately \$12.5 million). Then in 2001, as again noted under "Background" above, differences arose between the company and the MEZ group. This led to the now settled litigation between the company and the MEZ group and to a series of transactions, concluding with the settlement agreement, whereby over the period from 2002 to-date the company acquired full ownership of the East Kalimantan operations (save as respects local investor participations in Indonesia and the third party holdings of MP preference shares). Through the same series of transactions, the company also supported the funding of the East Kalimantan

operations to an extent sufficient to permit the continued development of those operations and the repayment of the loans provided or supported by the MEZ group. All of the foregoing had to be financed by the company. Some monies were raised in 1998 and 2001 by equity offerings but, for the most part, over the period from 1998 to 2001 the company was able to meet its funding requirements by divesting businesses and assets unconnected with, or not essential to the continuation of, the East Kalimantan operations. However, after early 2002, there were no further businesses or assets left to sell and from then onwards, to-date, the company has been dependent upon issues of listed securities to provide the finance that it has required. Issues made in 2002 and 2003 were essential to the company's survival. Later issues in 2004 were designed to consolidate the financial position of the group, while the recent issue in February 2006, described under "Background" above, refinanced the cash component of the settlement agreement. Following implementation of the proposals, the directors believe that the company would have the equity capital appropriate for its immediate plans in terms of the planting programmes envisaged for 2006 and 2007. After 2007, further equity capital could be required if extension planting were to be continued at a high level. However, the extent of the requirement for such capital (if any) will be dependent upon CPO prices in the intervening period and the judgement of the directors at the time as to whether any extension planting programme proposed offers the prospect of returns sufficient to justify a further call for equity funding. The directors are, however, predisposed to believe that returns to ordinary shareholders are likely to be maximised by capitalising on the group's capacity to manage a larger business off its existing overhead base and by using that base and the group's available land bank to expand the group's operations. The position regarding the group's priority capital is less clear-cut. That capital now comprises three components: preference share capital which, upon completion of the preference share placing, would amount to some £11.5 million, the listed dollar notes of which a nominal amount of some \$24 million is outstanding and bank indebtedness in Indonesia of some \$41.5 million. The directors believe that it is essential to maximising returns to holders of the company's equity 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, following implementation of the proposals, the amount of preference capital that would be in issue would be proportionate to the equity base of the group and that the overall level of the group's indebtedness would be appropriate to the current size of the group at this stage in its development. Furthermore, the current indebtedness of the group is a significant improvement on the debt position from which it has evolved, which was subject to almost continuous rescheduling over the period from 1998 to 2003, piecemeal refinancing in 2004 and, eventually, full refinancing in 2005. Nevertheless the directors have a remaining concern regarding the structure of the group's indebtedness. That is that they find it unsatisfactory that the maturity of the group's Indonesian indebtedness (which is repayable by instalments over a five year period from drawdown in 2005) does not match the growth cycle of the oil palm plantings that it is effectively financing, as those plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield. This deficiency in the group's debt structure stems from the fact that the group has to-date found itself unable to borrow money in the Indonesian banking market for a fixed term of more than five years. The directors believe that the terms of the group's existing Indonesian facilities were the best that the group could reasonably have secured when those facilities were arranged and they do not believe that it is practicable to replace the existing facilities with other local facilities in a way that would overcome the inherent defects of the current facilities (which are anyway adequate for the group's present requirements). Instead, the directors believe that the answer is to seek longer term debt from markets external to Indonesia; it was with this aim that the directors established the dollar notes as listed debt securities of the company in September 2005. Against the background of the negotiations leading to the settlement agreement and the directors knowledge that that

agreement might, as has proved the case, result in a material further issue of dollar notes, the directors have not to-date made any serious attempts to issue a material amount of further dollar notes for cash. However, they now intend to do so and to apply any net proceeds from such issues in reducing the group's bank indebtedness. Should markets prove receptive to the issue of further dollar notes, the directors may also seek to increase the size of the dollar note issue above the originally proposed \$30 million nominal of dollar notes. They may also consider issuing a second line of listed debt securities of the company on terms similar to those of the dollar notes but with a later maturity so as to avoid an excessive proportion of the group's debt falling due for repayment within a relatively short time frame. The company's ability to source new capital by further issues of dollar notes or of other listed debt securities is completely unproven and it may prove impossible to effect any such issues. If, however, such issues do prove possible then the directors would aim to replace a major proportion of the group's present Indonesian indebtedness with listed debt securities.

Current trading ----- The crop out-turn for 2005 amounted to 313,000 tonnes of FFB. This represented an increase of some 6.5 per cent on the FFB crop for 2004 of 294,000 tonnes but a shortfall of 5.4 per cent on the 2005 budgeted crop of 331,000 tonnes. The failure to achieve the budgeted crop is attributed by the directors to the level of rain which approached 5,000 mm over 2005 as a whole against some 4,000 mm in the preceding year. Particularly 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 mean that the group was unable, during the peak cropping period of the second half of the year, to recover the budget shortfalls of the first half. CPO and palm kernel outputs for 2005 amounted to, respectively, 73,000 tonnes and 13,000 tonnes reflecting extraction rates of 23.3 per cent for oil and 4.0 per cent for kernels. These rates were below the extraction rates of 2004 when 71,000 tonnes of CPO and 12,000 tonnes of kernels were produced. The reduction in extraction rates is attributed by the directors to the heavy rains referred to above as very damp conditions inhibit weevil activity and result in sub-optimal cross-pollination and poor fruit set. With higher freight charges, the average US dollar FOB price per tonne realised in respect of 2005 sales of CPO was approximately 14 per cent lower than that of 2004. Some delays were caused to the group's planned extension planting programmes for 2005 (comprising 3,000 hectares in the nucleus area and 1,500 hectares in the new joint venture area) by representations from certain affected local villagers who were seeking to renegotiate compensation payments agreed on their behalf by their village head and then, after the concerns of the affected villagers had been allayed, by abnormally high rainfall in the last quarter of 2005. As a result, the 2005 programmes will now be completed during 2006. 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, provided that there are no further material delays (and none have been experienced to-date in 2006), the late completion of the 2005 programmes will not have a material long term adverse effect on future crops. 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 for the first two months of 2006 have been ahead of budget but monthly crop fluctuations are normal and the crops achieved to-date should not be taken as indicating any likelihood that the crop for 2006 will be above budget. Higher world freight rates continue to cause a high differential between CPO prices CIF Rotterdam and FOB East Kalimantan and this, together with 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. Nevertheless, the directors believe that the outlook for CPO demand looks positive given the increasing use of CPO as a biofuel. Accordingly they expect that, absent further weather abnormalities, 2006 will prove to be a satisfactory year. 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. 2005 results ----- The 2005 results will reflect provision for expenditure of \$2.4 million in relation to the settlement agreement so as to make full provision at 31 December 2005 for the various MEZ group claims settled pursuant to that agreement by payment of \$6 million (an aggregate amount of \$3.6 million having already been provided against such claims in the group balance sheet at 31 December 2004). The directors have recently been informed that there is now a degree of uncertainty as to whether the Indonesian tax authorities will continue to allow the carry forward of tax losses incurred by REA Kaltim for a period of eight years. The directors have previously been advised that REA Kaltim is eligible for such concessionary carry forward of losses (rather than the normal carry forward for five years) as the concession is applicable to companies operating oil palm plantations in the eastern provinces of Indonesia. Should this advice prove incorrect, the directors do not believe that there would be any significant implication as respects the tax actually payable by the group in respect of past years or years up to at least 2008. However, were the company to make provision in its 2005 consolidated financial statements to reflect a reduction in the period of the carry forward of REA Kaltim's tax losses from eight years to five years (as to which no decision has yet been taken by the directors who are awaiting further clarification of relevant issues from Indonesia), the company would have to recognise a reduction (currently estimated to be in the region of £1.0 million) in the deferred tax asset carried in the company's consolidated balance sheet at 31 December 2004.

Dividend policy ----- 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) payable by two equal semi-annual instalments on 30 June and 31 December of each year (save that the preference dividend to be paid in respect of the new preference shares on 30 June 2006 will be 21/4p per share). Against the background of the difficult financial circumstances that the group was then facing, the directors decided, in December 2001, that it was necessary to defer payment of the fixed semi-annual dividend that fell due for payment on 31 December 2001 in respect of the preference shares. The semi-annual dividends falling due in each of June 2002, December 2002 and June 2003 were also deferred. However, by December 2003 the financial situation of the group had become clearer and preference dividends were paid on 31 December 2003 and 30 June 2004 in amounts equal to the fixed semi-annual dividends then falling due being, in each case, some £256,000. By agreement with the holders of preference shares, all arrears of preference dividend were then eliminated in July 2004 by a capitalisation issue of further preference shares equivalent in aggregate nominal value to the arrears of dividend which amounted to £1,027,000. Since then all semi annual preference dividends have been duly paid. Absent unforeseen material adverse change in the group's circumstances, the directors intend that all future preference dividends should be paid as they fall due. The preference dividend due on 30 June 2006 will be paid from the existing distributable reserves of the company and is not contingent upon the proposed reduction in the capital of the company becoming effective. No dividend has been paid in respect of the ordinary shares since 31 January 2000. For so long as the fixed dividend on the preference shares was in arrears, the company was not legally permitted to pay dividends on the ordinary shares. With the elimination of preference dividend arrears in July 2004, that impediment to the payment of ordinary dividends was removed but with the funding uncertainties still faced by the group, the directors have not subsequently, to-date, felt able to recommend the payment of any dividend on the ordinary shares. Completion of the settlement agreement has removed one significant uncertainty and implementation of the ordinary share placing and open offer and of the preference share placing will further improve the financial stability of the group. Nevertheless the group will continue to face significant potential demands on cash for both the planned continuing development of the group's oil palm operations and to meet scheduled repayments of the group's Indonesian bank indebtedness. Accordingly the directors do not propose to 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.

Meetings ----- As already noted above, two meetings have been convened for 18 April 2006 both of which are to be held at the London office of the company's solicitors, Ashurst, at

Broadwalk House, 5 Appold Street, London EC2A 2HA: a meeting of warrant holders to be held at 10.15 am; and an extraordinary general meeting of the company (at which only holders of ordinary shares may vote) to be held at 10.30 am (or so soon thereafter as the meeting of warrant holders has been concluded or adjourned). Two resolutions are set out in the notice of the meeting of warrant holders (each of which will be proposed as an extraordinary resolution). The first resolution provides for warrant holders to approve the proposed amendments to the terms of the warrants as described under "Warrant rights" above. The second resolution provides for warrant holders to sanction the proposed reduction of capital to be effected by the third resolution set out in the notice of extraordinary general meeting. The first resolution set out in the notice of the extraordinary general meeting (which will be proposed as a special resolution) provides for: approval by shareholders of the ordinary share placing and open offer at 260p per new ordinary share, representing a discount of 19 per cent on the closing mid market quotation for the existing ordinary shares as derived from the Daily Official List of the London Stock Exchange on 13 February 2006 (being the day immediately preceding the date upon which the intention to make the ordinary share placing and open offer at a price of 260p per share was announced); the authorised share capital of the company to be increased by £750,000 by the creation of an additional 3,000,000 new ordinary shares (representing 7.9 per cent of the existing authorised ordinary share capital) ranking pari passu with the existing ordinary shares; and the directors to be authorised to allot up to 2,828,000 new ordinary shares pursuant to the ordinary share placing and open offer and to be empowered to do so as if the statutory pre-emption rights under section 89 of the Act did not apply to such allotment. The second resolution set out in the notice of the extraordinary general meeting (which will be proposed as an ordinary resolution) provides for the authorised share capital of the company to be increased by £3,000,000 by the creation of an additional 3,000,000 new preference shares (representing 26.1 per cent of the existing authorised preference share capital) ranking pari passu with the existing preference shares (save that the dividend payable on the new preference shares on 30 June 2006 will be 21/4p per share) and for the directors to be authorised to allot the same. The third resolution set out in the notice of the extraordinary general meeting (which will be proposed as a special resolution) provides for the capital of the company to be reduced by £6,000,000 (subject to confirmation by the High Court) by the cancellation of the entire amount (namely £3,239,666) standing to the credit of the capital redemption reserve and of £2,760,334 standing to the credit of the share premium account. The proposals to increase the authorised share capital of the company pursuant to the first and second resolutions set out in the notice of the extraordinary general meeting are designed to provide additional numbers of ordinary shares and preference shares in the authorised share capital substantially equivalent to the numbers of new ordinary shares and new preference shares proposed to be issued pursuant to the ordinary share placing and open offer and the preference share placing. Recommendation ----- The directors are of the opinion that the proposals, and the resolutions necessary to implement the proposals (being the resolutions set out in the notices of the meeting of warrant holders and of the extraordinary general meeting convened for 18 April 2006), are in the best interests of warrant holders and shareholders as a whole. Accordingly the board recommends that: warrant holders vote in favour of each of the two resolutions set out in the notice of the meeting of warrant holders convened for 18 April 2006; and ordinary shareholders vote in favour of each of the three resolutions set out in the notice of the extraordinary general meeting convened for 18 April 2006. The directors (and persons connected with them within the meaning of section 346 of the Act) intend to vote in favour of all resolutions referred to above in respect of their own beneficial holdings which amount in aggregate to 137,900 warrants (representing 8.9 per cent of the warrants in issue) and 870,805 ordinary shares (representing 3.3 per cent of the issued ordinary share capital of the company). Emba has undertaken to vote in favour of all resolutions referred to above in respect of its holdings of 41,420 warrants (representing 2.7 per cent of the warrants in issue) and 9,468,781 ordinary shares (representing 35.7 per cent of the issued ordinary share capital of the company). Further information ----- Copies of the circular will be available for inspection at the Document Viewing Facility of the UK Listing Authority up to and including the date of the extraordinary general meeting convened for 18 April

2006 and may be obtained free of charge from the company at its registered office, Third Floor, 40-42 Osnaaburgh Street, London NW1 3ND. A copy of the circular is also being placed on the company's website at [www.rea.co.uk](http://www.rea.co.uk). Expected timetable -----

Record date for the open offer	21 March 2006
Latest time and date for splitting application forms	3.00pm on 10 April 2006
Latest time and date for receipt of completed application forms and remittances	3.00pm on 12 April 2006
Latest time and date for receipt of proxies for use in connection with the meeting of warrant holders	10.15am on 16 April 2006
Latest time and date for receipt of proxies for use in connection with the extraordinary general meeting	10.30am on 16 April 2006
Meeting of warrant holders	10.15am on 18 April 2006
Extraordinary general meeting	10.30am on 18 April 2006

Open offer unconditional, issue and listing of new ordinary shares effective and commencement of dealings in new ordinary shares 19 April 2006 CREST accounts credited in respect of new ordinary shares subscribed pursuant to the ordinary share placing 19 April 2006 CREST accounts credited in respect of new ordinary shares subscribed pursuant to the open offer 19 April 2006 Definitive shares certificates despatched in respect of new ordinary shares 26 April 2006 Reduction of capital effective 19 May 2006 Issue and listing of new preference shares effective and commencement of dealings in new preference shares 22 May 2006 CREST accounts credited in respect of new preference shares subscribed pursuant to the preference share placing 22 May 2006 Definitions -----

Unless the context otherwise requires, the following definitions apply throughout this press release "application form" the form upon which a qualifying holder may apply for new ordinary shares pursuant to the open offer "board" or the directors of the company "directors" "company" or "REA" R.E.A. Holdings plc "CPO" crude palm oil "dollar notes" the 7.5 per cent dollar notes 2012/14 of the company constituted by a trust deed dated 12 September 2005 and made between the company and The Law Debenture Trust Corporation p.l.c. "East Kalimantan" the province of East Kalimantan in Indonesia (being part of the Island of Borneo) where the group's oil palm operations are located "Emba" Emba Holdings Limited "FFB" oil palm fresh fruit bunches "group" the company and its subsidiaries "High Court" The High Court of Justice in England and Wales "London Stock London Stock Exchange plc Exchange" "Makassar" Makassar Investments Limited, a member of the group "MEZ group" Mr M E Zukerman and entities associated (or understood to be associated) with him, including Bodley Investment Company, M. E. Zukerman & Co. Incorporated, M. E. Zukerman Investments Limited and the Zukerman family trust, or, where the context so requires, any one or several of such individual and entities "Mirabaud" Mirabaud Securities Limited "MP" Makassar Participation plc, a member of the group "new ordinary up to 2,828,000 new ordinary shares proposed to be issued shares" under the ordinary share placing and open offer "new preference up to 3,000,000 new preference shares proposed to be issued shares" under the preference share placing "Official List" the list maintained by the Financial Services Authority in accordance with section 74(1) of the Financial Services and Markets Act 2000 "open offer" the invitation to qualifying holders to subscribe up to 1,403,042 new ordinary shares at a price of 260p per share that is contained in the circular and in the application forms "ordinary share the proposed placing by Mirabaud, as agent of the company, of placing" up to 2,413,000 new ordinary shares at a price of 260p per share (subject to clawback of up to 927,331 new ordinary shares to meet applications for new ordinary shares under the open offer) "ordinary shares" ordinary shares of 25p each in the capital of the company "preference share the proposed placing by Mirabaud, as agent of the company, of placing" up to 3,000,000 new preference shares at a price of 105p per share "preference 9 per cent cumulative preference shares of £1 each in the shares" capital of the company "proposals" the proposals, details of which are set out in the circular, for (i) the ordinary share placing and open offer, (ii) the preference share placing, (iii) amendment of the terms of the warrants and (iv) a reduction in the capital of the company "qualifying holders of ordinary shares and warrants on the registers of holders" members and warrant holders at the close of business on 21 March 2006 (other than certain overseas holders) "REA Kaltim" PT REA Kaltim Plantations, a member of the group "settlement the contract dated 23 January 2006 above whereby all agreement" litigation claims made or threatened by the MEZ group against the group and the directors and all outstanding litigation claims threatened by the group against the MEZ group were

settled and REA acquired the ordinary shares of Makassar formerly owned by the MEZ group "shareholders" holders of ordinary shares and/or preference shares "warrants" the 1,548,807 warrants of the company each entitling the holder to subscribe for one ordinary share at a price of 73.5p either by payment of 73.5p in cash or by surrender of 0.735 preference shares This information is provided by RNS The company news service from the London Stock Exchange