

# Interim Results

R.E.A.Hldgs PLC 24 October 2005 R.E.A. HOLDINGS PLC - 2005 INTERIM RESULTS

SUMMARY ===== 6 months to 6 months 30 June to June 2005 2004 Change £'000 £'000 %

Sales 8,209 8,806 - 7 Earnings before finance costs, income tax, depreciation and amortisation

6,126 6,410 - 4 Profit before tax 5,425 5,159 + 5 Profit for the period 3,844 3,801 + 1 Profit

attributable to ordinary shareholders 2,902 2,901 0 Earnings per ordinary share 14.4p 15.0p - 3

Dividend per ordinary share nil nil nil CHAIRMAN'S STATEMENT =====

Adoption of International Financial Reporting Standards The accompanying interim consolidated financial statements for the six months ended 30 June 2005 are presented in accordance with International Financial Reporting Standards ("IFRS"). Since this is the first period in respect of which the company has reported under IFRS, comparative figures for the six months to 30 June 2004, and for the year to 31 December 2004, have been restated in accordance with IFRS. The company's published 2005 interim report (which may be downloaded from the company's website at "www.rea.co.uk") includes reconciliations of such restated figures with the previously published figures which were prepared in accordance with UK Generally Accepted Accounting Practice ("UKGAAP"). The accounting policies applied by the company under IFRS are set out below under "Accounting policies". The main aspects of the company's consolidated financial statements that have been affected by the change from UKGAAP to IFRS are summarised below 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. The application of this new treatment is the principal reason that the profit before tax for the six months to 30 June 2004 as restated under IFRS amounts to £5,159,000 against £2,621,000 as previously reported under UKGAAP. Results The profit before tax for the six months to 30 June 2005 amounted to £5,425,000, a modest increase on the restated profit before tax of the corresponding period of 2004 of £5,159,000. The profit of £5,425,000 includes a gain on the restatement of biological assets at fair value of £2,410,000 as compared with the restated gain of £1,827,000 included in the comparative figure. Operations With the group's mature hectarage little changed from that of a year earlier, crop and production for the first six months of 2005 were very much in line with the crop and production of the first six months of 2004. Fresh fruit bunches ("FFB") harvested totalled some 148,000 tonnes (against 147,000 tonnes) while crude palm oil ("CPO") and palm kernel production amounted to, respectively, 36,500 tonnes (35,500 tonnes) and 6,600 tonnes (6,100 tonnes). Rainfall at an average across the group's estates of slightly in excess of 2,500 millimetres was again at a high level. Particularly heavy rains during April and early May caused the Belayan and Mahakam rivers to flood and resulted in significant operational disruption during the second quarter. Harvesting was delayed and this led to some deterioration in the CPO extraction rate and in the quality of CPO output. Fortunately, and in large parts thanks to the initiative and hard work of the group's local management in facilitating FFB evacuation by establishing temporary corduroy timber tracks along flooded access roads, the disruption lasted for only a limited period. CPO quality has now returned to normal but extraction rates for CPO and kernels remain at below normal levels as a result of poor fruit pollination during the period of the exceptionally high rainfall. Average extraction rates for the nine months to end September 2005 were still above 24 per cent and 4 per cent respectively but these averages will be eroded slightly by year end if extraction rates do not revert back to normal levels within the next few weeks. The CPO price in the first half of 2005 averaged US\$418 per tonne, CIF Rotterdam, as compared with an average of US\$512 per tonne for the first half of 2004. The impact on group sales

of the reduction in average price was less marked than might have been expected because, although rains did as noted in the preceding paragraph have some negative impact on CPO quality, rains affected CPO quality to a greater extent in the first half of 2004. Although the FFB crop was running slightly ahead of budget at 30 June 2005, a drier third quarter saw some fall off in cropping levels so that by end September there was a shortfall of some 10,000 tonnes against the budgeted FFB crop for the first nine months of 2005. The return of heavier rains in the past couple of weeks has seen a resurgence in the daily FFB outturn and, if sustained, this offers a reasonable hope that the FFB crop for the year will be close to the 331,000 tonnes budgeted for 2005. The prospectus published by the company on 17 August 2005 noted that some delays were being caused to the clearing of the group's planned 2005 extension planting area of 3,000 hectares following representations by certain individuals from a local village who were seeking to renegotiate compensation payments agreed on their behalf by their village head and paid in the early part of the year. It is hoped that the concerns of the affected individuals have now been allayed to an extent that should permit clearing of at least 1,500 hectares to be completed during 2005. The directors are confident that continuing dialogue will in due course overcome such concerns as remain. The uncleared balance of the 2005 extension planting programme will be carried forward into 2006. Provided that such late clearing does not unduly delay the transfer of oil palm seedlings from nursery to field, the long term effect on future crops from the late completion of the 2005 programme should not be material. Clearing of the planned 1,500 hectare initial planting planned for 2005 in the group's new joint venture development (95 per cent owned by the company's subsidiary, Makassar Investments Limited) is expected to be completed substantially by year end. Site works for the planned construction of the group's second oil mill and palm kernel processing plant are proceeding as per programme and the oil mill and kernel plant remain scheduled for completion in, respectively, the first half and the second half of 2006. In the meanwhile, the group's existing oil mill is operating close to capacity and successfully accommodating the record daily crops that are currently being harvested. Group development Proposals for a reorganisation of the company's former 4 per cent convertible loan stock 2012 were circulated to shareholders and holders of other securities of the company on 17 August 2005 and were duly approved at meetings held on 12 September 2005. The approval 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 US\$4,972,281 nominal of new 7.5 per cent dollar notes 2012/14 of the company (on the basis of 164 new ordinary shares and US\$163 nominal of dollar notes for every £100 nominal of convertible loan stock held). At the same time, the company created additional dollar notes so as to permit an eventual issue of up to US\$30 million of such notes. Subsequently, the company's subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), succeeded in arranging new loan facilities in Indonesia totalling US\$45 million and provided by a consortium of three banks. The new facilities have been guaranteed by the company. An initial US\$38 million has been drawn down and was principally applied in repaying all former REA Kaltim third party borrowings other than monies owed under a US\$3.5 million working capital facility that has been renewed. It is expected that the balance of the facilities will be drawn over the period to 31 December 2006 and will be applied in financing REA Kaltim's continuing development programme. The new facilities are repayable over a five year period and carry interest at a margin of 4 per cent over Singapore inter-bank rate for US dollars. The directors intend to fund repayments of the facilities in part by further issues of dollar notes. The group is currently engaged in active discussions aimed at establishing a second joint venture oil palm development. If established, such development would be based on land of an area of about 20,000 hectares adjoining the north eastern boundary of the group's existing titled areas. Litigation Mediated discussions aimed at exploring the possibility of settling actual and threatened legal proceedings against the group from interests associated with Mr M E Zukerman commenced in late September 2005 and are continuing. Confidentiality agreements preclude the directors from disclosing any information concerning the discussions. No conclusions should be drawn as to whether or not the discussions are likely to result in a resolution of the outstanding disputes. Prospects The recent increase in the price of mineral oil has been accompanied by speculation that

bio-diesel and other bio-fuels may to an extent be substituted for mineral oil. This appears to have encouraged an increase in prices across the vegetable oil complex and in particular a firming in the price of CPO. There is no doubt that vegetable oils can be, and are in increasing quantities being, converted into bio-diesel and bio-fuels and this represents an encouraging development for the group. However, the higher mineral oil price that has triggered this development is not without its negatives since it is resulting in higher prices for mineral oil based fertilisers and diesel. These will increase the group's production costs (and materially so in the case of diesel where the increase has been exacerbated by the recent withdrawal of fuel subsidies in Indonesia). Higher bunkering charges are also resulting in increased freight costs offsetting some of the benefits of the higher CIF Rotterdam CPO prices now being realised. Nevertheless, in overall terms, the expansion of industrial offtake of CPO and other vegetable oils is positive for the CPO market and for the group and at present CPO price levels the group enjoys good margins. On that basis, the directors are confident of a satisfactory final result for 2005. RICHARD M ROBINOW Chairman 24 October 2005 APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

===== The interim consolidated financial statements for 2005 are the first to be prepared under International Financial Reporting Standards ("IFRS"), whereas previous statements were prepared under UK Generally Accepted Accounting Practice ("UKGAAP"). All comparative figures in these financial statements have been restated under IFRS and reconciliations of the IFRS income statements and balance sheets for the six months to 30 June 2004 and for the year to 31 December 2004 against the former UKGAAP statements are included in the company's published 2005 interim report (which may be downloaded from the company's website at "www.rea.co.uk"). A reconciliation of the IFRS balance sheet at 31 December 2003, being the opening position for the IFRS reports, against the previously reported UKGAAP figures at that date, is also included in that report. The application of IFRS results in no overall change to the comparative consolidated cash flow statements and hence no reconciliations of these statements are provided. The main aspects of the consolidated financial statements that have been affected by the change from UKGAAP to IFRS are noted below.

**Agricultural assets** Under IFRS, the non-current assets of the agricultural activities ("biological assets") are valued in accordance with IAS 41, at each reporting date, at their fair values whereas under UKGAAP the biological assets were included with the other non-current assets and were shown at depreciated cost and periodic revaluation. All property, plant and equipment together with the land on which the biological assets are located are excluded from biological assets and continue to be shown at depreciated cost under other categories of non-current assets. All sales of agricultural produce are made in the form of either crude palm oil or palm kernels which are extracted from harvested fresh fruit bunches at the group's mill. The extraction represents a manufacturing process separate from the biological process which is treated as ceasing at the point of delivery of fresh fruit bunches to the manufacturing process. As there is no readily available market value for the biological assets, the fair value is based on discounting the cash flow projected to be derived from the biological assets over their productive lives, applying the estimated transfer value of the fresh fruit bunches to the manufacturing process. Inventory of agricultural produce is valued on the basis of the transfer value from the biological process plus processing costs and transportation costs to the point at which the inventory is located (or net realisable value if less).

**Convertible loan stock** Under IFRS, convertible loan stock is regarded as a compound financial instrument, which is split between a debt element and an equity element, the former being the discounted present value of the nominal value of the stock at the redemption date, applying the interest rate that would be payable if the stock had not been convertible, and the latter being the balance of the net proceeds of the issue (reflecting the implied value of the conversion right). Under UKGAAP the full net proceeds of issue were included in debt.

**Retirement benefits** Under IFRS, all actuarial valuation deficits or surpluses on defined benefit pension schemes are recognised in the financial statements of the employer. The group however participates in a multi-employer defined benefit pension scheme which, for reporting purposes, has hitherto been dealt with as a defined contribution scheme. However following an amendment to IAS 19 issued in December 2004, any contractual obligation agreed

with the scheme to make good a participant's share of any deficit has to be provided for in the participant's financial statements (no such provision having been required under UKGAAP).  
Deferred tax Under IFRS, deferred tax is to be provided for on all timing differences both positive (assets) and negative (liabilities), the assets being included to the extent that it is anticipated that there will be sufficient taxable profits in the future against which the assets may be applied. In particular, deferred tax is now provided on all former revaluation surpluses that are taken to retained earnings and certain other items taken directly to equity. Unlike UKGAAP where a net position was disclosed, deferred tax assets and liabilities are separately disclosed in the balance sheet.

#### CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	6 months to 30 June 2005	6 months to 30 June 2004	Year to 31 December 2005	Year to 31 December 2004	Note	£'000	£'000
Revenue	4,820	8,806	16,052				
Cost of sales	(4,068)	(3,166)	(6,072)				
Gain arising from changes in fair value of biological assets	5,241	1,827	2,986				
Gross profit	6,551	7,467	12,966				
Other operating income	479	7	1,059				
Distribution costs	(67)	(8)	(32)				
Administrative expenses	(1,177)	(1,076)	(2,918)				
Other operating expenses	(51)	(173)	(285)				
Profit from operations	5,735	6,217	10,790				
Investment income	60	154	157				
Finance costs	(6)	(370)	(1,212)				
Profit before tax	5,425	5,159	9,191				
Tax	(7)	(1,581)	(1,358)				
Profit for the period	3,844	3,801	6,537				
Attributable to:							
Ordinary shareholders	2,902	2,901	4,783				
Preference shareholders	383	256	639				
Minority interest	559	644	1,115				
Earnings per 25p ordinary share	8	Basic 14.4p	15.0p				
Diluted	10.6p	10.7p	17.8p				

All operations in all periods are continuing.

#### CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2005

	30 June 2005	30 June 2004	31 December 2005	31 December 2004	Note	£'000	£'000	£'000
Non-current assets								
Biological assets	5,597	52,519	51,765					
Property, plant and equipment	8,172	7,513	7,497					
Prepaid operating lease rentals	447	240	294					
Deferred tax assets	6,675	8,404	7,642					
Non-current receivables	941	170	490					
Total non-current assets	75,944	68,846	67,688					
Current assets								
Inventories	1,700	1,608	1,744					
Trade and other receivables	2,655	2,128	2,817					
Assets held for resale	1,067	-	1,067					
Cash and cash equivalents	1,093	3,703	1,061					
Total current assets	6,515	7,439	6,689					
Total assets	82,459	76,285	74,377					
Current liabilities								
Trade and other payables	(4,887)	(2,091)	(3,775)					
Tax liabilities	(132)	(12)	-					
Obligations under finance leases	(227)	(197)	(318)					
Bank overdrafts and loans	(3,019)	(893)	(2,680)					
Other loans and payables	(2,503)	-	-					
Total current liabilities	(8,265)	(5,696)	(6,773)					
Non-current liabilities								
Bank loans	(12,218)	(17,695)	(12,790)					
Convertible loan stock	(2,367)	(2,502)	(2,337)					
Deferred tax liabilities	(16,300)	(14,909)	(14,971)					
Obligations under finance leases	(421)	(576)	(347)					
Other loans and payables	(1,688)	(1,676)	(1,823)					
Total non-current liabilities	(32,994)	(37,358)	(32,268)					
Total liabilities	(41,259)	(43,054)	(39,041)					
Net assets	41,200	33,231	35,336					
Equity								
Issued share capital	13,536	10,591	13,533					
Share premium account	3,888	4,874	3,885					
Capital redemption reserve	3,240	3,240	3,240					
Warrants	1,164	1,212	1,164					
Translation reserve	(7,004)	(7,399)	(9,129)					
Equity reserve	369	423	370					
Retained earnings	20,050	15,265	17,148					
Minority Interests	5,957	5,025	5,125					
Total equity	41,200	33,231	35,336					

#### CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	6 months to 30 June 2005	6 months to 30 June 2004	Year to 31 December 2005	Year to 31 December 2004	Note	£'000	£'000	£'000
Exchange translation differences	2,398	(578)	(2,726)					
Tax on items taken directly to equity	110	16	125					
Net income recognised directly in equity	2,508	(562)	(2,601)					
Profit for the period	3,844	3,801	6,537					
Total recognised income and expense for the period	6,352	3,239	3,936					
Attributable to:								
Ordinary shareholders	5,010	2,469	2,621					
Preference shareholders	383	256	639					
Minority interests	959	514	676					



----- 6,352 3,239 3,936 ----- CONSOLIDATED

# CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

===== 6

months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000
Total recognised income and expense for the period 6,352 3,239 3,936
Issue of ordinary shares in exchange for convertible loan stock 5 335 541
Issue of preference shares - - 1,600
Issue of ordinary shares in exchange for warrants - - 47
Dividends to minority shareholders of a subsidiary (110) (101) (163)
Dividends to preference shareholders (383) (256) (639)
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5,864 3,217 5,322
Equity at beginning of period 35,336 30,014 30,014
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Equity at end of period 41,200 33,231 35,336

## CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

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6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000
Operating activities Profit from operations 5,735 6,217 10,790
Depreciation of property, plant and equipment 384 229 639
Depreciation of operating lease rentals 7 4 9
Increase in fair value of biological assets (2,410) (1,827) (2,986)
Gain on disposal of property, plant and equipment - (7) (7)
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Operating cash flows before movements in working capital 3,716 4,616
8,445
Decrease/(increase) in inventories 122 12 (218)
(Increase)/decrease in receivables (202) 1,208
12
Increase/(decrease) in payables 814 (2,352) (2,912)
Exchange differences (231) 70 367
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Cash generated by operations 4,219 3,554 5,694
Taxes paid (31) (27) (118)
Interest paid (335) (440) (800)
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Net cash from operating activities 3,853 3,087 4,776
Investing activities Interest received 60 154 54
Proceeds on disposal of property, plant and equipment - 12 15
Purchases of property, plant and equipment (435) (260) (1,048)
Expenditure on biological assets (1,596) (1,101) (2,264)
Expenditure on operating leases (132) (32) (108)
Purchase of investments - - (1,067)
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Net cash used in investing activities (2,103) (1,227) (4,418)
Financing activities Preference dividends paid (383) (256) (639)
Repayment of borrowings (1,264) (10,963) (11,108)
Repayment of obligations under finance leases (114) (242) (411)
Proceeds of issue of ordinary share capital less expenses - - 47
Proceeds of issue of preference share capital less expenses - - 1,600
New borrowings raised - 6,651 4,654
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Net cash used in financing activities (1,761) (4,810) (5,857)
Cash and cash equivalents Net decrease in cash and cash equivalents (11) (2,950) (5,499)
Cash and cash equivalents at beginning of period 1,061 6,790 6,790
Effect of exchange rate changes 43 (137) (230)
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Cash and cash equivalents at end of period 1,093 3,703 1,061

## ACCOUNTING POLICIES ===== Basis of

consolidation The consolidated financial statements consolidate those of the company and its subsidiary companies made up to respectively 31 December and 30 June each year. Unless otherwise stated, 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. Subsequently, any losses applicable to the minority interest 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 to the effective date of disposal, as appropriate. 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. Non-current assets held for sale Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Goodwill Goodwill is recognised as an asset on the basis described in the above policy on "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. Goodwill arising between 1 January 1998 and the date of transition to IFRS is retained at the previous UKGAAP 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. 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 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 assets and liabilities carried at fair values that are denominated in foreign currencies are translated at the rates prevailing at the dates when the fair values were determined. Gains or losses arising on 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 company'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 sterling 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 exchange 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 sterling are treated as assets and liabilities of that entity and are translated at the closing rate of exchange. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities. 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. Profit from operations Profit from operations 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 accruing adjusted to reflect variations from that cost is charged as an expense as it is incurred. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost represent amounts payable to cover actuarial losses or gains and are payable over the estimated average remaining working life of the scheme members. It is assumed that the amendment to IAS 19 has been adopted and provision is therefore made for the present value of future amounts payable to cover the group share of actuarial losses. The provision is reassessed at each accounting date, with the difference on reassessment being charged or credited to profit or loss 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 provided 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 tax bases 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. Such assets and liabilities are not recognised if the temporary difference 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 profits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. 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 and other facilities used in the upkeep of the planted areas and harvesting of the crop. 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 and harvesting costs. 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 estimated cost to complete planting and 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 the cost of the Indonesian head office, the cost of providing agricultural buildings, equipment and vehicles, personnel costs, local fees and general expenses. 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 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 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 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 less all estimated costs of processing and costs incurred in marketing, selling and distribution. Financial instruments Financial assets and liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the relative constituting instruments. Trade receivables Trade receivables do not carry any interest and are stated at nominal value as reduced by appropriate allowances for irrecoverable amounts. Financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the relative contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Bank borrowings Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for against income on an accruals basis using the effective interest method and are added to the carrying amounts of the relative instruments to the extent that they are not settled in the periods in which they arise. Convertible loan stock Convertible loan stock is regarded as a compound financial instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity, is included in equity. Issue costs are apportioned between the liability and equity components based on their relative carrying amounts at the date of issue. The portion relating to the equity component is



charged directly against equity. On each conversion, an appropriate proportion of the liability component is transferred to equity. The interest expense charged to income in each period on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is adjusted to the carrying amount of the liability component of the convertible loan stock. Trade payables Trade payables are not interest bearing and are stated at their nominal value. Equity instruments 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 as such shares are not redeemable. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ===== 1. Basis of

accounting The consolidated financial statements for the six months ended 30 June 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed for use by the EU at that date and expected to be effective by 31 December 2005, which will be the end of the first annual reporting period for which the company is required to adopt IFRS. It is assumed that "Amendment to International Accounting Standard IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures" issued by the International Accounting Standards Board will be endorsed by the EU for use in the annual financial statements for the year ending 31 December 2005. Certain adopted standards forming part of IFRS that will be effective for the year ending 31 December 2005 are still subject to change and additional interpretations. Therefore some accounting policies may be amended for the financial statements at 31 December 2005. The comparative financial statements for the six months to 30 June 2004 and for the year to 31 December 2004 were prepared in accordance with UK generally accepted accounting practice (UKGAAP) and have been restated to accord with IFRS. The IFRS comparatives for 2004 have been prepared by management using its best knowledge of the expected standards, interpretations published by the International Accounting Standards Board and the facts, circumstances and accounting policies that will apply when the company prepares its first complete set of IFRS financial statements as at 31 December 2005. Until then, such comparatives and opening balance sheet should be treated as preliminary. Moreover, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the company's financial position, results of operations and cash flow. The disclosures required by IFRS 1 concerning the transition from UKGAAP to IFRS on financial position, financial results and cash flow are included in the company's published 2005 interim report (which may be downloaded from the company's website at "www.rea.co.uk"). The group has not adopted International Accounting Standard IAS 34 "Interim Financial Reporting" in these interim financial statements. This standard is not mandatory. The accompanying financial statements are prepared under the historical cost convention, as modified by the revaluation of certain assets. 2. Accounting policies The company is required to determine its accounting policies under International Financial Reporting Standards (IFRS) and apply them retrospectively to establish its opening balance sheet under IFRS. The date of transition to IFRS for the group is 1 January 2004, as required by IFRS. The group has taken advantage of the following exemptions permitted by IFRS 1 on the adoption of IFRS for the first time. Business combinations For business combinations before 1 January 2004, the group has elected not to apply the provisions of IFRS 3, "Business Combinations" retrospectively.

Accordingly, no adjustments have been made for historic business combinations. Cumulative translation differences Cumulative translation differences of foreign operations have not been restated on an IFRS basis. These are deemed to be nil at the date of transition. Share-based payments The provisions of IFRS 2 have not been applied to options and awards granted on or before 7 November 2002. No options have been granted since that date. The accounting policies of the group as restated to IFRS are set out under "Accounting policies" above. 3. Revenue 6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Sales of goods 8,084 8,749 15,939 Revenue from services 125 57 113 ----- 8,209 8,806 16,052 Other operating income 479 7 1,059 Investment income 60 154 157

----- Total revenue 8,748 8,967 17,268 ----- 4. Segment information In the table below, the group's sales are analysed by geographical origin and the carrying amount of segment 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. 6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'m £'m £'m Sales by geographical origin: United Kingdom 0.1 0.1 0.1 Indonesia 8.1 8.7 16.0 ----- 8.2 8.8 16.1 ----- Carrying amount of segment assets by geographical area of asset location: United Kingdom (6.0) (4.9) (3.2) Indonesia 47.2 38.1 38.5 ----- 41.2 33.2 35.3 ----- Additions to property, plant and equipment by geographical area of asset location: United Kingdom - - - Indonesia 0.5 1.0 1.8 ----- 0.5 1.0 1.8 ----- 5. Biological assets 6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Carrying amount at beginning of period 51,765 50,128 50,128 Additions to planted area and costs to maturity 1,596 1,101 2,264 Gain arising from changes in fair value attributable to physical changes 3,220 3,387 7,089 Loss arising from changes in fair value attributable to price changes (810) (1,560) (4,103) Exchange differences 3,938 (537) (3,613) ----- Carrying amount at end of period 59,709 52,519 51,765 ----- 6. Finance costs 6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Interest on bank loans and overdrafts 539 458 1,065 Interest on convertible loan stock 91 115 211 Interest on other loans - 247 252 Interest on obligations under finance leases 35 32 69 ----- 665 852 1,597 Less: Amount included as additions to biological assets (360) (365) (606) ----- 305 487 991 Other finance charges 11 7 26 Exchange loss on repayment of long term intra-group foreign currency loans 54 718 739 ----- 370 1,212 1,756 ----- 7. Tax 6 months to 6 months to Year to 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Current tax: UK corporation tax - - - Foreign tax 31 39 118 ----- Total current tax 31 39 118 ----- Deferred tax: Current year 1,550 1,319 2,536 Attributable to an increase in the rate of tax - - - ----- Total deferred tax 1,550 1,319 2,536 ----- Total tax 1,581 1,358 2,654 ----- 8. Earnings per share 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Earnings for the purpose of basic earnings per share\* 2,902 2,901 4,783 Interest on convertible loan stock (net of tax) 43 67 89 ----- Earnings for the purpose of diluted earnings per share 2,945 2,968 4,872 ----- \* being net profit attributable to ordinary shareholders Weighted average number of ordinary shares: '000 '000 '000 For the purpose of basic earnings per share 20,122 19,399 19,755 Effect of dilutive potential ordinary shares 7,626 8,229 7,656 ----- For the purpose of diluted earnings per share 27,748 27,628 27,411 ----- 9. Movement in net borrowings 30 June 30 June 31 December 2005 2004 2004 £'000 £'000 £'000 Change in net borrowings resulting from cash flows: Decrease in cash and cash equivalents (11) (2,950) (5,499) Decrease in borrowings 1,378 4,554 6,865 ----- 1,367 1,604 1,366 Interest charged less paid on convertible loan stock (30) (48) (88) Conversion of convertible loan stock - 336 541 New leases (81) (728) (770) ----- 1,256 1,164 1,049 Currency translation differences (1,004) 214 1,078 Net borrowings at beginning of period (17,411) (19,538) (19,538) ----- Net borrowings at end of period (17,159) (18,160) (17,411) ----- 10. Basis of preparation The interim financial information contained in this announcement has not been audited and does not constitute statutory accounts for the purpose of Section 240 of the Companies Act 1985. It complies with applicable International Financial Reporting Standards and has been prepared on the basis of the stated accounting policies which are the policies set out in the 2004 annual report adjusted to conform with International Financial Reporting Standards. The figures for the year ended 31 Decemeber 2004 are abridged and have been based on figures extracted from the statutory accounts filed with the Registrar of Companies on which the auditors gave an unqualified report. The figures for both the six months ended 30 June 2004 and the year ended 31 Decemeber 2004 have been restated applying International Financial

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