

# R.E.A. Holdings plc: Annual reports and accounts 2019

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## R.E.A. HOLDINGS PLC (the "company")

### ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2019 (including notice of the annual general meeting to be held on 11 June 2020) (the "annual report") will shortly be available for downloading from the group's website at [www.rea.co.uk](http://www.rea.co.uk). A copy of the notice of annual general meeting will also be available to download from the Investors section (under Shareholder information) of the website.

Upon completion of bulk printing, copies of the annual report will be despatched to persons entitled thereto and will be submitted to the National Storage Mechanism to be made available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

The sections below entitled "Chairman's statement", "Dividends", "Risks and uncertainties", "Viability statement", "Going concern" and "Directors' confirmation of responsibility" have been extracted without material adjustment from the annual report. The basis of presentation of the financial information set out below is detailed in note 1 of the notes to the financial statements below.

### HIGHLIGHTS

#### Overview

- 2019 was a difficult trading period for the group, with weak CPO and CPKO prices impacting on what was otherwise strong operational performance. The strengthening of prices witnessed at the end of 2019 and the start of 2020 was brought to a halt by the Covid-19 pandemic with the consequential collapse in the global economy
- At the beginning of April 2020, the Indonesian government deemed certain activities, notably agriculture and plantations, as essential and, accordingly these are not restricted because of Covid-19. The group's estates are currently operating normally and to-date the pandemic has had no effect on the group's ability to deliver CPO and CPKO to its buyers
- The pandemic has adversely affected the CPO and CPKO markets in which prices have fallen. Going forward, low levels of planting and replanting in Indonesia in recent years are expected to result in slower growth in CPO and CPKO supply and, as demand for vegetable oils is restored, prices are likely to recover

#### Financial

- Revenue up to \$125.0 million (2018: \$105.5 million) with the uplift in CPO prices towards the end of the year and stock sales carried over from 2018

- Cost of sales increased to \$121.8 million (2018: \$99.6 million) largely reflecting the swing in stock movements, with operational costs otherwise similar to 2018
- EBITDA increased to \$18.2 million (2018: \$12.3 million) benefitting from higher selling prices in the second half
- Pre-tax loss of \$43.7 million (2018: loss of \$5.5 million) due to negative foreign exchange charge of \$8.6 million adversely affecting finance cost, a depreciation charge increased by \$4.3 million and a net impairment loss of \$3.3 million following the decision not to extend the KMS land allocation
- Repayment date of £30.9 million nominal of 8.75 per cent sterling notes extended in March 2020 from August 2020 to August 2025

### **Agricultural operations**

- A second record year for FFB production at 800,666 tonnes (2018: 800,050 tonnes) despite both an industry wide decline as palms entered a resting phase and several periods of unusually low rainfall in the second half
- FFB yield per mature hectare over 24 tonnes (2018: 23 tonnes)
- Increase in third party FFB purchased to 198,737 tonnes (2018: 191,228 tonnes)
- Extraction rates continuing to improve with CPO averaging 23.0 per cent (2018: 22.5 per cent) owing to the focus on modifications, upgrading and rigorous maintenance in the mills

### **Stone and coal interests**

- Arrangements with a neighbouring coal company for the opening and quarrying of the andesite stone concession held by the group's local partners
- Contractor appointed to mine the Kota Bangun coal concession held by the group's local partners, though currently on hold due to Covid-19 and low coal prices

### **Sustainability**

- Ranked 8 out of 99 companies producing, processing and trading palm oil by ZSL's SPOTT assessment of disclosures and commitment to environmental, social and governance best practice in 2019
- KMS, the group's most recently matured estate, RSPO certified at the start of 2020

### **Outlook**

- Cost saving and efficiency measures implemented in 2019 expected to achieve significant cost savings in 2020
- Capital expenditure limited to completing the mill works and to bunding and resupplying 1,000 hectares of mature areas previously damaged by periodic flooding, while extension planting remains on hold pending a sustained recovery in the CPO price and financial performance
- In light of Covid-19, the group is engaged in positive discussions with its Indonesian bankers to postpone loan repayments due in 2020
- Crop production to date in 2020 is slightly ahead of budget and, with extraction rates achieving expected levels and mill operations continuing to improve, the outlook is positive, subject to the immediate impacts and risks of Covid-19

## **CHAIRMAN'S STATEMENT**

Trading conditions during 2019 were difficult. Prices of crude palm oil ("CPO") and crude palm kernel oil ("CPKO") remained weak for most of the year. Only towards the end of 2019, when demand for CPO was clearly exceeding supply and global stocks started to fall significantly, did the CPO price start to recover. Consequently, notwithstanding ongoing improvements in operational performance, pressure on margins resulted in an operating loss for the year of \$9.1 million, a small reduction on the operating loss of \$10.7 million in 2018.

Improvements were made in crop yields with fresh fruit bunches ("FFB") harvested of 800,666 tonnes, marginally ahead of the 800,050 tonnes in 2018. Although FFB in 2019 was below the original target of 900,000 tonnes, it represented a second record year for the group producing a yield per mature hectare of 24.2 tonnes. These improvements should be viewed in the context of an industry wide decline in FFB production reflecting palms entering a resting phase following generally very high levels of cropping in 2018 as well as several periods of unusually low rainfall in the second half of 2019. Measured against these benchmarks, the group's operational performance compares favourably. Third party harvested FFB totalled 198,737 tonnes against 191,228 tonnes in 2018.

Production of CPO in 2019 increased to 224,856 tonnes, compared with 217,721 tonnes in 2018, while CPKO production fell slightly to 15,305 tonnes, compared to 16,095 tonnes in 2018. The reduced CPKO production was

entirely due to the temporary suspension of production to allow for maintenance work at one of the kernel crushing plants during the first half of 2019, during which period, uncrushed kernels were sold to third parties. Both CPO and CPKO extraction yields increased to, respectively, 23.0 per cent and 40.7 percent in 2019 compared with, respectively, 22.5 per cent and 40.2 per cent in 2018, as a consequence of the focus on the modifications, upgrading and rigorous maintenance programme in the group's three mills. The majority of these works are due to be completed during 2020, with some works carried over from 2019 owing to delays with contractors and in supplies of materials. Such delays also postponed completion of the expansion of the group's newest mill at Satria until later in 2020 or early 2021.

Revenue for 2019 amounted to \$125.0 million, compared with \$105.5 in 2018, the increase largely reflecting the uplift in CPO prices towards the end of the year and the sales at the start of 2019 of both CPO and CPKO stocks carried over from 2018. Overall, however, cost of sales were higher in 2019 at \$121.8 million, compared with \$99.6 million in 2018, principally as a result of the swing in stock movements from \$(10.2 million) in 2018 to \$9.1 million in 2019. Estate operating costs overall in 2019 were similar to those of 2018, notwithstanding increases in labour costs. Field and harvesting costs were well controlled, but mill processing costs were significantly over budget reflecting running inefficiencies pending completion of necessary maintenance and upgrading work. As in 2018, extra despatch costs were incurred in trucking unusually high volumes of CPO and CPKO to the downstream loading point because of low river levels coinciding with the period of peak production in the second half of the year.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA"), improved from \$12.3 million in 2018 to \$18.2 million in 2019. As anticipated at the time of publication of the 2019 half yearly report, the EBITDA of the second half at \$18.3 million was significantly better than that of the first half of \$(0.1) million, reflecting the weighting of the group's crops to the second half and better selling prices in the last quarter of 2019. With an increase in the depreciation charge of \$4.3 million over that charged in 2018 and the impact of adverse exchange rate movements on finance costs, the group incurred a loss before tax in 2019 of \$43.7 million, compared with \$5.5 million in 2018. Significant steps were taken in 2019 to reduce costs and, whilst these had a limited impact on the results for the year, the group is aiming for a reduction in 2020 of some \$10 million against the level of costs that would have been incurred without the cost reduction and efficiency measures.

The CPO price, CIF Rotterdam, opened the year at \$517 per tonne and fell to a low of \$481 per tonne in July before recovering slowly to reach \$860 per tonne by the end of 2019. In the wake of the Covid-19 pandemic, the price has since fallen back with reduced demand in the wake of the dramatic slowdown in the world economies. The price is currently trading at \$525 per tonne. CPKO prices opened the year at \$783 per tonne, CIF Rotterdam, rose to a high in mid January before falling back to \$529 in early June, largely reflecting subdued demand generally and good availability of the competitor coconut oil, and then recovered to \$1,080 per tonne by the end of 2019. The CPKO price currently stands at \$605 per tonne.

The average selling price for the group's CPO for 2019 on an FOB basis at the port of Samarinda, net of export levy and duty, was \$453 per tonne (2018: \$472 per tonne). The average selling price for the group's CPKO, on the same basis, was \$533 per tonne (2018: \$792 per tonne).

Development of the group's land bank of some 6,000 hectares that are available for immediate extension planting continues to be on hold pending a sustained recovery in the CPO price and in the group's financial performance. In the meantime, some 1,000 hectares of mature areas that have been damaged over the years by periodic flooding are being banded and resupplied.

As previously reported, good progress was made in 2019 by the principal coal concession holding company to reopen the concession at Kota Bangun. Refurbishment of the loading point on the Mahakam River and the conveyor crossing the concession were completed and the requisite licences obtained. A contractor was appointed to provide mining services and to manage the port facility, as well as funding all further expenditure required for infrastructure, land compensation and mobilisation in exchange for a participation in the mine's profits. Following further test drilling and development of a mine plan, it was expected that mobilisation and mining would commence by mid 2020. As a result of the Covid-19 pandemic, however, these plans are currently on hold and it is unlikely that mining operations will commence until the end of 2020 at the earliest.

The group is also finalising arrangements with a neighbouring coal company for the opening and quarrying of the andesite stone concession on similar terms to those agreed for the Kota Bangun coal concession. Work is expected to commence in the second half of 2020.

As at 31 December 2019 the group had total equity (including preference share capital) of \$239.7 million, compared with \$246.8 million at 31 December 2018. In October 2019, the company issued 3,441,000 ordinary shares for cash at a price of £1.45p per share. Non-controlling interests at 31 December 2019 amounted to \$13.0 million, compared with \$14.5 million at 31 December 2018.

Net indebtedness, including £30.9 million (\$39.0 million) of 8.75 per cent guaranteed sterling notes that were due to mature in August 2020, amounted to \$207.8 million at 31 December 2019, compared with \$189.6 million at 31 December 2018. On 31 March 2020, the holders of the sterling notes approved proposals to extend the repayment date to 31 August 2025. In consideration for agreeing to these proposals, the notes will now be repayable at a premium of 4 pence per £1.00 nominal loan note and the company has issued to noteholders 4,010,760 warrants, each warrant entitling the holder to subscribe for a period of 5 years, one new ordinary share in the company at a subscription price of £1.26 per share.

The group has repayments due on its indebtedness in Indonesia to PT Bank Mandiri (Persero) Tbk ("Mandiri"). The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. However, following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to postpone repayments due during the rest of 2020.

In view of the difficult trading conditions prevailing during 2019, the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due in June and December 2019 were deferred. With the major improvement in the CPO price at the end of 2019 and into 2020 it was hoped that the payment of preference dividends arising in 2020 could be resumed and that the deferred dividends could be caught up progressively. Unfortunately, the subsequent disruption wrought by the Covid-19 pandemic has meant that this plan has had to be placed on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

As dividends on the preference shares are now more than six months in arrears, the company is not permitted to pay dividends on its ordinary shares. Notwithstanding this requirement and based on the financial results for 2019, the directors would not have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares at this time.

As already noted, the beginning of 2020 saw continued strength in CPO prices, largely reflecting low levels of CPO stocks and vegetable oil consumption exceeding supply. This underlying price firmness was brought to a halt as a direct result of the Covid-19 pandemic. The consequential collapse in the global economy had an immediate impact on the CPO market and demand initially fell dramatically. This was reflected in a fall in the CPO price from \$860 per tonne on 1 January 2020 to \$540 per tonne on 30 April 2020.

At current CPO price levels, the group should be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year. Crop levels and harvested FFB continue to be in line with expectations and mill operations continue to improve. However, there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers, although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business.

In the longer term, low levels of replanting and little new planting taking place in Indonesia are likely to result in much slower growth in both CPO and CPKO production than in the recent past. Given a return to recent levels of demand for vegetable oils, further improvement in prices are therefore likely and consequently provide a positive outlook for the group.

DAVID J BLACKETT  
Chairman

## **DIVIDENDS**

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted.

## ANNUAL GENERAL MEETING

The sixtieth annual general meeting of R.E.A. Holdings plc will be held at 32 - 36 Great Portland Street, London W1W 8QX on 11 June 2020 at 10.00 am.

### Attendance

The company has been closely monitoring the evolving situation relating to the outbreak of Coronavirus (Covid-19), including the current restrictions from the UK Government and Public Health England prohibiting public gatherings of more than two people and non-essential travel, save in certain limited circumstances.

**Pending further guidance, shareholders are advised that they should not attend the Annual General Meeting in person and any person who attempts to attend the meeting in person will be refused entry.**

Shareholders are:

- a. strongly encouraged to submit a proxy vote on each of the resolutions in the notice in advance of the meeting:
  - i. via the website of our registrars, Link Asset Services ("Link"), at [www.signalshares.com](http://www.signalshares.com) (and so that the appointment is received by the service by no later than 10.00 am on 9 June 2020) or via the CREST electronic proxy appointment service; or
  - ii. by completing, signing and returning a form of proxy to Link as soon as possible and, in any event, so as to arrive by no later than 10.00 am on 9 June 2020

and given the restrictions on attendance, shareholders are strongly encouraged to appoint the chairman of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting;

- b. encouraged to submit ahead of the meeting any questions for the directors, together with the name of the submitting shareholder as it appears on the company's register of members, to the following email address: [AGM2020@rea.co.uk](mailto:AGM2020@rea.co.uk) so as to be received by no later than 5.00 pm on 9 June 2020. You are directed to the notes pages of the notice for guidance on members' rights to ask questions and when the company will cause them to be answered.

The company:

- a. has arranged for shareholders to be able to listen to the proceedings of the meeting via a telephone dial in which can be accessed at any time from 15 minutes prior to the meeting until the conclusion of the meeting using the following dial in details +44 (0)20 3651 8923 and conference code 46081227#. If you are intending to call from overseas, please contact the company secretary at [AGM2020@rea.co.uk](mailto:AGM2020@rea.co.uk), who can provide you with an appropriate telephone number. Please note that shareholders will not be able to use this to actively participate in the meeting by voting on the resolutions or asking questions. Accordingly and as noted above, shareholders are urged to vote on the resolutions and to submit any questions they have in advance of the meeting;
- b. will continue to closely monitor the situation in the lead up to the meeting and will make any further updates about the meeting on the Investors section (under Regulatory news) of the group's website at [www.rea.co.uk](http://www.rea.co.uk). Shareholders are accordingly requested to watch the group's website for any such further updates.

The health and wellbeing of the company's shareholders, directors and employees is of paramount importance and the company shall take such further steps in relation to the meeting as are appropriate with this in mind.

The directors and the chairman of the meeting and any person so authorised by the directors reserve the right, as set out in article 64.5 in the company's current articles of association, to take such action as they think fit for securing the safety of people at the meeting and promoting the orderly conduct of business at the meeting.



## RISKS AND UNCERTAINTIES

The group's business involves risks and uncertainties. Identification, assessment, management and mitigation of the risks associated with environmental, social and governance matters forms part of the group's system of internal control for which the board of the company has ultimate responsibility. The board discharges that responsibility as described in "Corporate governance" in the annual report.

Those principal risks and uncertainties that the directors currently consider to be material or prospectively material are described below. There are or may be other risks and uncertainties faced by the group that the directors currently deem immaterial, or of which they are unaware, that may have a material adverse impact on the group.

In addition to the risks that have long been normal aspects of its business, the group currently faces potential impacts from the Covid-19 pandemic. This pandemic is unprecedented in the history of the group and there are therefore no precedents against which the risks that it entails can be assessed. At this juncture, there has been no material adverse impact on the group's day to day operations although there has been a negative impact on markets for CPO and CPKO, the extent of which is covered in the "Strategic report" in the annual report. Potential further consequences of Covid-19 could include adverse effects on employee health, loss of production and inability to make deliveries of palm products. Each of these could then negatively affect the group's finances. The group's ability to withstand such negative financial impact will be dependent upon the continuing support of its stakeholders which cannot be predicted.

The risks detailed below as relating to "Agricultural operations - Expansion" and "Stone and coal interests" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and the stone and coal concessions in which the group holds interests are not currently being mined. However, such risks will apply when, as is contemplated, expansion and mining are resumed or commence. The effect of an adverse incident relating to the stone and coal interests, as referred to below, could impact the ability of the stone and coal companies to repay their loans.

Material risks, related policies and the group's successes and failures with respect to environmental, social and governance matters and the measures taken in response to any failures are described in more detail under "Sustainability" in the annual report.

Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

The directors have carefully reviewed the potential impact on its operations of the various possible outcomes to the current discussions on the termination of UK membership of the European Union ("Brexit"). The directors expect that certain outcomes may result in a movement in sterling against the US dollar and Indonesian rupiah with consequential impact on the group dollar translation of its sterling costs and sterling liabilities. The directors do not believe that such impact (which could be positive or negative) would be material in the overall context of the group. Were there to be an outcome that resulted in a reduction in UK interest rates, this may negatively impact the level of the technical provisions of the REA Pension Scheme but given the Scheme's estimated funding position, the directors do not expect that this impact would be material in the overall context of the group. Beyond this, and considering that the group's entire operations are in Indonesia, the directors do not see Brexit as posing a significant risk to the group.

The directors have considered the potential impact on the group of global climate change. Between 5 and 10 per cent of the group's existing plantings are in areas that are low lying and prone to flooding if not protected by bunding. Were climate change to cause an increase in water levels in the rivers running through the estates, this could be expected to increase the requirement for bunding or, if the increase was so extreme that bunding became impossible, could lead to the loss of low lying plantings. Changes to levels and regularity of rainfall and sunlight hours could also adversely affect production. However, it seems likely that any climate change impact negatively affecting group production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply. This would be likely to result in higher prices for CPO and CPKO which should provide at least some offset against reduced production.

Apart from the Covid-19 Pandemic, which represents the single greatest risk to the group at this time, risks assessed by the directors as being of particular significance are those detailed below under:

- "Agricultural operations - Produce prices"
- "General - Funding"
- "Agricultural operations - Climatic factors"
- "Agricultural operations - Other operational factors".

The directors' assessment, as respects produce prices and funding, reflects the key importance of those risks in relation

to the matters considered in the "Viability statement" below and, as respects climatic and other factors, the negative impact that could result from adverse incidence of such risks.

<b>Risk</b>	<b>Potential impact</b>	<b>Mitigating or other relevant considerations</b>
<b>Agricultural operations</b>		
<b><i>Climatic factors</i></b>		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates offers a viable alternative route for transport with any associated additional cost more than outweighed by avoidance of the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
<b><i>Cultivation risks</i></b>		
Failure to achieve optimal upkeep standards	A reduction in harvested crop resulting in loss of potential revenue	The group has adopted standard operating practices designed to achieve required upkeep standards
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
<b><i>Other operational factors</i></b>		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and has established biogas plants to improve its self-reliance in relation to fuel
A hiatus in harvesting, collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain a sufficient complement of harvesters within its workforce to harvest expected crops and to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB	The group's bulk storage facilities have adequate capacity and further storage facilities are afforded by the fleet of barges. Together, these have hitherto always proved adequate to

of CPO and CPKO from the transshipment terminal	harvesting or processing with a resultant loss of crop and consequential loss of potential revenue	meet the group's requirements for CPO and CPKO storage and may be expanded to accommodate anticipated increases in production
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices
<b><i>Produce prices</i></b>		
Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	The Indonesian government allows the free export of CPO and CPKO but applies a sliding scale of duties on exports, which is varied from time to time in response to prevailing prices, to allow producers economic margins. The extension of this sliding scale to incorporate an export levy to fund biodiesel subsidies is designed to support the local price of CPO and CPKO
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries, for example, by imposition of reciprocal trade barriers or tariffs between major economies	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils
<b><i>Expansion</i></b>		
Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds significant fully titled or allocated land areas suitable for planting. It works continuously to maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as practicable, that it will be able to fund any planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the continued growth of the group	A possible adverse effect on market perceptions as to the value of the company's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances
<b><i>Environmental, social and governance practices</i></b>		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly



		and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
<b>Community relations</b>		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	Disruption of operations, including blockages restricting access to the area the subject of the disputed compensation	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
<b>Stone and coal interests</b>		
<b>Operational factors</b>		
Failure by external contractors to achieve agreed production volumes with optimal stripping values or extraction rates	Under recovery of receivables	The stone and coal concession companies endeavour to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to or under recovery of receivables	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays or failure to achieve projected production	The stone and coal concession companies seek to ensure the accuracy of geological assessments of any extraction programme

<b>Prices</b>		
Local competition reducing stone prices and volatility of international coal prices	Reduced revenue and a consequent reduction in recovery of receivables	There are currently no other stone quarries in the vicinity of the stone concessions and the cost of transporting stone should restrict competition. The high quality of the coal in the main coal concession may limit volatility
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in recovery of receivables	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
<b>Environmental, social and governance practices</b>		
Failure by the stone and coal interests to meet the expected standards	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The stone and coal concession companies are committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations
<b>General</b>		
<b>Currency</b>		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where practicable the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments
<b>Funding</b>		
Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements	Inability to meet liabilities as they fall due	The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles when circumstances require; moreover, the directors believe that the fundamentals of the group's business will normally facilitate procurement of additional equity capital should this prove necessary
<b>Counterparty risk</b>		
Default by a supplier, customer or financial institution	Loss of any prepayment, unpaid sales proceeds or deposit	The group maintains strict controls over its financial exposures which include regular reviews of the creditworthiness of counterparties and limits on exposures to counterparties. Sales are generally made on the basis of cash against documents

<b>Regulatory exposure</b>		
New, and changes to, laws and regulations that affect the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation)	Restriction on the group's ability to retain its current structure or to continue operating as currently	The directors are not aware of any specific planned changes that would adversely affect the group to a material extent; current regulations restricting the size of oil palm growers in Indonesia will not impact the group for the foreseeable future
Breach of the various continuing conditions attaching to the group's land rights and the stone and coal concessions (including conditions requiring utilisation of the rights and concessions) or failure to maintain all permits and licences required for the group's operations	Civil sanctions and, in an extreme case, loss of the affected rights or concessions	The group endeavours to ensure compliance with the continuing conditions attaching to its land rights and concessions and that its activities and the activities of the stone and coal concession companies are conducted within the terms of the licences and permits that are held and that licences and permits are obtained and renewed as necessary
Failure by the group to meet the standards expected in relation to bribery, corruption and slavery	Reputational damage and criminal sanctions	The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index
Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners	Constraints on the group's ability to recover its investment	Maintenance of good relations with local partners to ensure that returns appropriately reflect agreed arrangements
<b>Country exposure</b>		
Deterioration in the political or economic situation in Indonesia	Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation	In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems
Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia	Restriction on the transfer of fees, interest and dividends from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends; loss of effective management control	The directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any Indonesian government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations
Mandatory reduction of foreign ownership of Indonesian plantation operations	Forced divestment of interests in Indonesia at below market values with consequential loss of value	The group accepts there is a significant possibility that foreign owners may be required over time to divest partially ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. Moreover, the group has local participation in all its Indonesian subsidiaries
<b>Miscellaneous relationships</b>		

Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" in the annual report
Breakdown in relationships with the local shareholders in the company's Indonesian subsidiaries	Reliance on the Indonesian courts for enforcement of the agreements governing its arrangements with local partners with the uncertainties that any juridical process involves and with any failure of enforcement likely to have a material negative impact on the value of the stone and coal interests because the concessions are legally owned by the group's local partners	The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have

## VIABILITY STATEMENT

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Strategic report" in the annual report which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 24 to the consolidated financial statements in the annual report includes information as to the group's policy, objectives and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks.

The "Risks and uncertainties" section of the Strategic report describes the material risks faced by the group and actions taken to mitigate those risks. In particular, there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for crude palm oil ("CPO") and crude palm kernel oil ("CPKO") over which it has no control. The further risks associated with the unprecedented disruption wrought by Covid-19 are also addressed in this section of the report.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some \$14.1 million of bank term indebtedness falls due for repayment during 2020 and a further \$40.4 million over the period 2021 to 2022. Additionally, a working capital loan of \$5.0 million is subject to annual renewal in November of each year. The £30.9 million (\$40.5 million) of 8.75 per cent guaranteed sterling notes that were due for repayment on 31 August 2020 (the "sterling notes") will now be repayable on 31 August 2025 following a resolution of the noteholders on 31 March 2020 to extend the repayment date, detailed under "Capital structure" in the Strategic report in the annual report. Subsequently, it has also been agreed to defer all repayments of loans from the non-controlling shareholder until 2025. The \$27.0 million of 7.5 per cent dollar notes 2022 (the "dollar notes") will become repayable in June 2022.

In view of the material component of the group's indebtedness falling due in the period to 31 December 2022 as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

In operational terms, the group's performance continues to be satisfactory with crops at acceptable levels, extraction rates on an improving trend and the group's extension planting programme deferred so as to minimise capital expenditure in 2020. However, for most of 2019 the group had to contend with a low CPO price. Steps were taken to reduce costs and, whilst these had a limited impact in 2019, the group is aiming for a reduction of some \$10 million per annum from 2020 onwards against the level of costs that would have been incurred without the cost saving measures.

With the long awaited recovery in CPO prices in late 2019 and early 2020 and vegetable oil consumption exceeding supply with stocks of CPO falling, the group was optimistic that this would enable it to rebuild much needed liquidity. Unfortunately, with the arrival of Covid-19, prices of CPO started to fall away. At current CPO prices, the group would hope to be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year.

Works to complete the extension of the group's newest oil mill and to enhance the efficiency of the two older mills commenced in 2019 and are to be completed by early 2021. Thereafter, no further mills will be required for the foreseeable future as the group will have sufficient mill capacity to meet projected increases in mill throughput. This should mean that, as cash flows recover, increased cash generation can be used to reduce debt levels.

The recently agreed arrangements for the andesite stone concession and planned resumption of mining at the Kota Bangun coal concession, both as detailed under "Stone and coal interests" in the Strategic report should, in due course, provide additional sources of cash through the repayment of loans due to the group.

As noted above, the group has repayments falling due on its bank indebtedness to Mandiri in 2020. The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. Following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all Indonesian state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to reschedule repayments due on the group's existing loans from Mandiri. The latter has confirmed its willingness to discuss such rescheduling.

For some time, the group has been hoping to reorganise its local bank borrowings by converting Indonesian rupiah borrowings to dollar borrowings which attract a lower rate of interest than rupiah borrowings. In the event, this has not to-date proved possible which, as it transpires, is fortuitous because in the period since 1 January, the rupiah fell from \$1 = Rp13,901 to \$1 = Rp16,500, though has since recovered to \$1 = Rp15,000. Based on the group's opening balances due to Mandiri equivalent to \$126.9 million, at an exchange rate of \$1 = Rp15,000, the group's indebtedness to Mandiri will have been reduced by approximately \$9 million. Moreover, the dollar equivalent of the rupiah interest cost will have been reduced proportionately.

Provided that CPO prices recover back to the levels prevailing at the start of 2020, the directors believe that the group's cash generation capabilities can be aligned with its cash requirements. However, the group faces serious risks not only in relation to the timing of a recovery in CPO prices, but also in relation to the possible operational impacts of Covid-19 which may restrict estate operations and the group's ability to deliver CPO and CPKO to its buyers although this is not currently an issue.

Following the refinancing of the sterling notes and subject to the eventual impact on CPO prices and the group's operations of Covid-19, the directors expect an improving outlook for the group's internally generated cash flows will permit the group to repay or refinance the group indebtedness falling due for repayment during the period of assessment.

Based on the foregoing, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2022 and to remain viable during that period. However, as the CPO price, the willingness of Mandiri to adjust the term of its loans to the group to the extent necessary in varying different circumstances and the prospective liquidity issues that could result in a downside scenario are not wholly within management's control, this expectation is subject to material uncertainties.

## **GOING CONCERN**

Factors affecting the development of the group are summarised in the first paragraph of the Viability statement above. The directors have, in particular, considered the principal risks and uncertainties faced by the group which are set out in the "Risks and uncertainties" section of the Strategic report, and have reviewed key sensitivities which could impact on the liquidity of the group.

As at 31 December 2019, the group had cash and cash equivalents of \$9.5 million and borrowings of \$217.3 million (in both cases as set out in note 24 to the group financial statements). Subsequent to the year end, the group has extended the repayment date of the sterling notes to 31 August 2025 and has also reached agreement to defer all repayments due on loans from the non-controlling shareholder until 2025. In addition, the group has asked Mandiri to consider rescheduling repayments due on the group's existing loans from Mandiri and the latter has confirmed its willingness to discuss such rescheduling.

Absent the extraordinary circumstances brought about by the Covid-19 pandemic, the directors would expect that, based on the group's forecasts and projections (taking into account reasonable possible changes in trading performance and other uncertainties) and having regard to the group's cash position and available borrowings, the group should be able to operate within its available borrowings for at least 12 months from the date of approval of the financial statements.

However, following the recent Covid-19 pandemic, the CPO price has fallen from \$860 per tonne CIF Rotterdam at 1 January 2020 to \$540 on 30 April 2020. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels.

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

## DIRECTORS' CONFIRMATION OF RESPONSIBILITY

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

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

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the "Strategic report" section of the annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

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

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$'000	\$'000
<b>Revenue</b>	124,986	105,479
Net gain arising from changes in fair value of agricultural produce inventory	5,127	305
Cost of sales:		
Depreciation and amortisation	(27,287)	(23,014)
Other costs	(94,495)	(76,571)
	—	—
<b>Gross profit</b>	8,331	6,199
Distribution costs	(1,348)	(1,258)
Administrative expenses	(16,097)	(15,668)
	—	—
<b>Operating loss</b>	(9,114)	(10,727)
Investment revenues	595	292
Impairment of non-current assets	(3,267)	-
Profit on disposal of subsidiary	-	10,373
Finance costs	(31,890)	(5,412)
	—	—



<b>Loss before tax</b>		(43,676)	(5,474)
Tax		22,303	(12,734)
		—	—
<b>Loss for the year</b>		(21,373)	(18,208)
		—	—
Attributable to:			
Ordinary shareholders		(17,814)	(22,021)
Preference shareholders		-	8,353
Non-controlling interests		(3,559)	(4,540)
		—	—
		(21,373)	(18,208)
		—	—

<b>Basic and diluted loss per 25p ordinary share (US cents)</b>		(43.1)	(54.4)
-----------------------------------------------------------------	--	--------	--------

All operations for both years are continuing

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

		2019	2018
		\$'000	\$'000
<b>Loss for the year</b>		(21,373)	(18,208)
		—	—
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		59	14,087
Deferred tax on exchange differences		(1,589)	3,110
		—	—
		1,648	17,197
Items that will not be reclassified to profit and loss:			
Actuarial (losses) / gains		(316)	1,732
Deferred tax on actuarial losses / (gains)		79	(425)
		—	—
		(237)	1,307
		—	—
<b>Total comprehensive income for the year</b>		(19,962)	296
		—	—
Attributable to:			
Ordinary shareholders		(16,403)	(3,517)
Preference shareholders		-	8,353
Non-controlling interests		(3,559)	(4,540)
		—	—
		(19,962)	296
		—	—

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019**

	2019	2018
	\$'000	\$'000
<b>Non-current assets</b>		
Goodwill	12,578	12,578
Intangible assets	2,135	2,581
Property, plant and equipment	394,356	407,164
Land	38,598	41,276*
Financial assets: stone and coal interests	50,329	46,011
Deferred tax assets	12,642	10,088
Non-current receivables	3,889	2,158*
	_____	_____
Total non-current assets	514,527	521,856
	_____	_____
<b>Current assets</b>		
Inventories	18,565	22,637
Biological assets	2,764	2,589
Trade and other receivables	53,760	50,714
Cash and cash equivalents	9,528	26,279
	_____	_____
Total current assets	84,617	102,219
	_____	_____
<b>Total assets</b>	599,144	624,075
	_____	_____
<b>Current liabilities</b>		
Trade and other payables	(63,452)	(59,779)
Current tax liabilities	-	-
Bank loans	(19,168)	(13,966)
Sterling notes	(38,996)	-
Other loans and payables	(14,457)	(718)
	_____	_____
Total current liabilities	(136,073)	(74,463)
	_____	_____
<b>Non-current liabilities</b>		
Bank loans	(107,757)	(117,008)
Sterling notes	-	(38,213)
Dollar notes	(26,804)	(23,724)
Deferred tax liabilities	(51,941)	(79,247)
Other loans and payables	(23,879)	(30,146)
	_____	_____
Total non-current liabilities	(210,381)	(288,338)
	_____	_____
<b>Total liabilities</b>	(346,454)	(362,801)
	_____	_____
<b>Net assets</b>	252,690	261,274
	_____	_____
<b>Equity</b>		
Share capital	133,586	132,528
Share premium account	47,358	42,401
Translation reserve	(26,032)	(42,470)
Retained earnings	84,779	114,360
	_____	_____

		239,691	246,819
Non-controlling interests		12,999	14,455
		—	—
<b>Total equity</b>		<b>252,690</b>	<b>261,274</b>
		—	—

\* Restated

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Share premium	Translation reserve	Retained earnings	Sub total	Non- controlling interests	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735
Loss for the year	-	-	-	(13,668)	(13,668)	(4,540)	(18,208)
Other comprehensive income for the year	-	-	15,831	1,307	17,138	1,366	18,504
Disposal of subsidiary	-	-	(7,404)	-	(7,404)	-	(7,404)
Dividends to preference shareholders	-	-	-	(8,353)	(8,353)	-	(8,353)
	—	—	—	—	—	—	—
At 31 December 2018	132,528	42,401	(42,470)	114,360	246,819	14,455	261,274
Loss for the year	-	-	-	(17,814)	(17,814)	(3,559)	(21,373)
Other comprehensive income for the year	-	-	987	(179)	808	603	1,411
Adjustment in respect of deferred tax provision release	-	-	15,451	(11,588)	3,863	-	3,863
Issue of new ordinary shares (cash)	1,058	5,079	-	-	6,137	-	6,137
Costs of issue	-	(122)	-	-	(122)	-	(122)
New equity from non-controlling shareholder	-	-	-	-	-	1,500	1,500
	—	—	—	—	—	—	—
At 31 December 2019	133,586	47,358	(26,032)	84,779	239,691	12,999	252,690
	—	—	—	—	—	—	—

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	\$'000	\$'000
<b>Net cash from / (used in) operating activities</b>	<b>2,185</b>	<b>(25,876)*</b>
	—	—
<b>Investing activities</b>		
Interest received	595	94
Proceeds on disposal of property, plant and equipment	7,639	-
Purchases of property, plant and equipment	(18,133)	(23,793)
Purchases of intangible assets	(20)	(33)
Expenditure on land	(4,552)	(1,990)*
Loans to stone and coal interests	(4,319)	(5,593)
Proceeds of disposal of subsidiary	-	2,793
	—	—
<b>Net cash used in investing activities</b>	<b>(18,790)</b>	<b>(28,522)*</b>

<b>Financing activities</b>			
Preference dividends paid		-	(8,353)
Repayment of bank borrowings		(14,512)	(105,768)
New bank borrowings drawn		4,999	119,847
New borrowings from related party		5,437	13,440
Repayment of borrowings from related party		(5,437)	(13,440)
Repayment of borrowings from non-controlling shareholder		-	(6,469)
New borrowings from non-controlling shareholder		1,758	-
New equity from non-controlling shareholder		1,500	-
Proceeds of issue of ordinary shares, less costs of issue		6,015	-
Proceeds of issue of 2022 dollar notes		3,000	-
Redemption of 2020 sterling notes		-	(1,307)
Proceeds of sale of investments		-	2,730
Repayment of balances from divested subsidiary		-	50,027
Settlement of bank loan by purchaser of subsidiary		-	24,748
Repayment of lease liabilities		(2,303)	-
Net cash from financing activities		457	75,455
<b>Cash and cash equivalents</b>			
Net (decrease) / increase in cash and cash equivalents		(16,148)	21,057
Cash and cash equivalents at beginning of year		26,279	5,543
Effect of exchange rate changes		(603)	(321)
Cash and cash equivalents at end of year		9,528	26,279

\* Restated

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The accompanying financial statements and notes 1 to 16 below (together the "accompanying financial information") have been extracted without material adjustment from the financial statements of the group for the year ended 31 December 2019 (the "2019 financial statements"). The auditor has reported on those accounts; the reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2019 financial statements will be filed in the near future with the Registrar of Companies. The accompanying financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 of the company.

Whilst the 2019 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as at the date of authorisation of those accounts, the accompanying financial information does not itself contain sufficient information to comply with IFRS.

The 2019 financial statements and the accompanying financial information were approved by the board of directors on 7 May 2020.

### 2. Revenue

		2019		2018
		\$'000		\$'000
Sales of goods		124,000		105,297

Revenue from services		986		182
		————		————
		124,986		105,479
Investment revenue		595		292
		————		————
Total revenue		125,581		105,771
		————		————

### 3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and stone and coal interests. In 2019 and 2018, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

		2019		2018
		\$'m		\$'m
Sales by geographical location:				
Indonesia		125.0		105.5
Rest of World		-		-
		————		————
		125.0		105.5
		————		————

Carrying amount of net (liabilities) / assets by geographical area of asset location:				
UK, Continental Europe and Singapore		(68.0)		(46.4)*
Indonesia		320.7		307.7*
		————		————
		252.7		261.3
		————		————

\* Incorrectly stated as \$26.4m and \$234.9m in 2018

### 4. Agricultural produce inventory movement

The net gain arising from changes in fair value of agricultural produce inventory represents the movement in the carrying value of such inventory after reflecting the movement in the fair value of the fresh fruit bunch input into that inventory (measured at fair value at point of harvest) less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

### 5. Administrative expenses

		2019		2018
		\$'000		\$'000
(Profit) / loss on disposal of property, plant and equipment		(707)		10
Indonesian operations		13,480		14,728
Head office and other corporate functions		5,928		5,696
		————		————
		18,701		20,434
Amount included as additions to property, plant and equipment		(2,604)		(4,766)
		————		————
		16,097		15,668



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## 6. Impairment of non-current assets

In 2019 the group has recognised a net impairment on non-current assets of \$3.3 million, of which \$5.0 million is a write off of expenditure on land and set off against this is a correction to non-current assets.

The \$5.0 million impairment relates to the write off of the cost of certain land rights in the group's subsidiary KMS. The company had an izin lokasi dated 16 July 2018 which was valid for one year. However when the izin lokasi expired in July 2019 the decision was made not to renew. This land is currently zoned as forest and although it is open for conversion to agricultural use it is also subject to conflicting land rights which would be costly to resolve.

Set off against this is an amount of \$1.7 million relating to the correction of an understatement of non-current receivables comprising loans to third parties by the company.

## 7. Finance costs

	2019	2018
	\$'000	\$'000
Interest on bank loans and overdrafts	14,664	15,485
Interest on dollar notes	1,859	1,877
Interest on sterling notes	3,462	4,085
Interest on other loans	1,539	2,549
Interest on lease liabilities	311	-
Change in value of sterling notes arising from exchange fluctuations	1,357	(2,297)
Change in value of loans arising from exchange fluctuations	7,246	(12,547)
Other finance charges	1,488	1,022
	<u>31,926</u>	<u>10,174</u>
Amount included as additions to property, plant and equipment	(36)	(4,762)
	<u>31,890</u>	<u>5,412</u>

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of nil per cent (2018: 15.9 per cent); there is no directly related tax relief.

## 8. Tax

	2019	2018
	\$'000	\$'000
Current tax:		
UK corporation tax	-	-
Overseas withholding tax	1,289	1,552
Foreign tax	737	9
	<u>2,026</u>	<u>1,561</u>

Deferred tax:		
Current year	(24,329)	10,628
Prior year	-	545
	<u>(24,329)</u>	<u>11,173</u>

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Total tax		(22,303)		12,734

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2018: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2018: 19 per cent) and a deferred tax rate of 17 per cent (2018: 18 per cent).

The rate of corporation tax in the United Kingdom had been expected to reduce from 19 per cent to 17 per cent from 1 April 2020 however in March 2020 it was announced that the rate would continue at 19 per cent.

## 9. Dividends

	2019	2018
	\$'000	\$'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2018: 9p per share)	-	8,353
	-	8,353

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 (totalling \$8.5 million) should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted.

## 10. Loss per share

	2019	2018
	\$'000	\$'000
Basic and diluted loss for the purpose of calculating loss per share*	(17,814)	(22,021)

	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	41,358	40,510

\* Being net loss attributable to ordinary shareholders

## 11. Property, plant and equipment

	Plantings	Buildings	Plant, and equipment structures and vehicles	Construction in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost:					
At 1 January 2018	201,369	274,640	112,749	5,076	593,834
Additions	7,617	12,228	2,545	6,165	28,555
Disposals - property, plant and equipment	-	(6,000)	(258)	-	(6,258)
Disposal of subsidiary	(26,437)	(47,075)	(1,730)	(1,487)	(76,729)
Transfers to/(from) construction in progress	-	2,494	18	(2,512)	-
At 31 December 2018	182,549	236,287	113,324	7,242	539,402
At 1 January 2019 restated*	182,549	236,930	114,963	7,242	541,684
Additions	2,367	3,068	5,518	7,275	18,228
Reclassifications and adjustments	(7,012)	10,227	3,525	(6,858)	(118)
Disposals - property, plant and equipment	(2,575)	(4,436)	(1,799)	-	(8,810)
At 31 December 2019	175,329	245,789	122,207	7,659	550,984

\* Balances at 1 January 2019 have been restated to include right of use assets

Accumulated depreciation:					
At 1 January 2018	26,961	32,379	52,153	-	111,493
Charge for year	9,861	5,651	6,499	-	22,011
Disposals - property, plant and equipment	-	-	(249)	-	(249)
Disposal of subsidiary	(257)	(209)	(551)	-	(1,017)
At 31 December 2018	36,565	37,821	57,852	-	132,238
Charge for year	9,734	6,904	10,183	-	26,821
Reclassifications and adjustments	-	414	(854)	-	(440)
Disposals - property, plant and equipment	(91)	(124)	(1,776)	-	(1,991)
At 31 December 2019	46,208	45,015	65,405	-	156,628
Carrying amount:					
At 31 December 2019	129,121	200,774	56,802	7,659	394,356
At 31 December 2018	145,984	198,466	55,472	7,242	407,164

The depreciation charge for the year includes \$95,000 (2018: \$103,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$3.4 million (2018: \$1.1 million).

At the balance sheet date, property, plant and equipment of \$153.5 million (2018: \$153.0 million) had been charged as security for bank loans.

## 12. Sterling notes

The sterling notes comprise £30.9 million nominal of 8.75 per cent guaranteed 2020 sterling notes (2018: £30.9 million nominal) issued by the company's subsidiary, REA Finance B.V..

On 1 April 2020 the proposal to extend the repayment date for the sterling notes from 31 August 2020 to 31 August 2025 was implemented. In accordance with the terms of the proposal the company issued a total of 4,010,760 warrants to subscribe, for a period of five years, for ordinary shares in the capital of the company at a price of £1.26 per share to the holders of the sterling notes on the basis of 130 warrants per £1,000 nominal of sterling notes held at the close of business (London time) on 24 March 2020.

The sterling notes are thus now due for repayment on 31 August 2025. A premium of 4p per £1 nominal of sterling notes will now be paid on redemption of the sterling notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of the warrants on the final subscription date (namely 15 July 2025).

The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, REAS, and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable on 31 August 2025.

The repayment obligation in respect of the sterling notes of £30.9 million (\$40.5 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs.

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

### 13. Share capital

	2019	2018
	£'000	£'000
Authorised (in sterling):		
85,000,000 - 9 per cent cumulative preference shares of £1 each (2018: 85,000,000)	85,000	85,000
50,000,000 - ordinary shares of 25p each (2018: 50,000,000)	12,500	12,500
	<u>97,500</u>	<u>97,500</u>
	\$'000	\$'000
Issued and fully paid (in dollars):		
72,000,000 - 9 per cent cumulative preference shares of £1 each (2018: 72,000,000)	116,516	116,516
43,950,529 - ordinary shares of 25p each (2018: 40,509,529)	18,071	17,013
132,500 - ordinary shares of 25p each held in treasury (2018: 132,500)	(1,001)	(1,001)
	<u>133,586</u>	<u>132,528</u>

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the

holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

Changes in share capital:

	9 per cent	
	cumulative	
	preference	Ordinary
	shares	shares
	of £1 each	of 25p each
Issued and fully paid:	No.	No.
At 1 January 2018	72,000,000	40,509,529
	—————	—————
At 31 December 2018	72,000,000	40,509,529
	—————	—————
Issued during the year	-	3,441,000
	—————	—————
At 31 December 2019	72,000,000	43,950,529
	—————	—————

On 2 October 2019, 3,441,000 new ordinary shares of 25p each were issued, fully paid, by way of a placing (aggregate nominal value £860,250). These shares were placed at a price of £1.45 per share to the following: Mirabaud Pereire Nominees Limited, Emba Holdings Limited (a related party), Carol Gysin (director) and David Blackett (director) for a total consideration of £4,989,000 (\$6,027,000). The middle market price at close of business on 27 September 2019 (being the date at which the terms were fixed) was £1.56.

There have been no changes in preference share capital or ordinary shares held in treasury during the year.

#### 14. Movement in net borrowings

	2019	2018
	\$'000	\$'000
Change in net borrowings resulting from cash flows:		
(Decrease) / increase in cash and cash equivalents, after exchange rate effects	(16,751)	20,736
Net decrease / (increase) in bank borrowings	4,409	(14,079)
Net (increase) / decrease in related party borrowings	(1,711)	6,469
	—————	—————
	(14,413)	13,126
Issue of 2022 dollar notes	(3,000)	-
Redemption of 2020 sterling notes	-	1,307
Amortisation of sterling note issue expenses	(420)	(497)
Amortisation of dollar notes issue expenses	(80)	(75)
	—————	—————
	(17,913)	13,861
Currency translation differences	(363)	11,053
Net borrowings at beginning of year	(189,551)	(214,465)
	—————	—————
Net borrowings at end of year	(207,827)	(189,551)
	—————	—————

#### 15. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are dealt with in the company's individual financial statements.

#### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report" of the annual report.

	2019	2018
	\$'000	\$'000
Short term benefits	1,041	1,564
Termination benefits	-	-
	1,041	1,564

#### Loan from related party

During the year, R.E.A. Trading Limited ("REAT"), a related party, made unsecured loans to the company on commercial terms. REAT is owned by Richard Robinow (a director of the company) and his brother who, with members of their family, also own Emba Holdings Limited, a substantial shareholder in the company. The maximum amount loaned was \$5.4 million, all of which had been repaid by 31 December (2018: \$13.4 million). Total interest paid during the year was \$83,000 (2018: \$243,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

## 16. Events after the reporting period

On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes to 31 August 2025. As consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and the company has issued to noteholders 4,010,760 warrants each entitling the warrant holder to subscribe, for a period of five years, one new ordinary share in the capital of the company at a subscription price of £1.26 per share.

Since the year end, the impact of the Covid-19 has had a significant impact on the group in terms of the reduction in the CPO price from \$860, CIF Rotterdam, at 1 January 2020 to \$540 on 30 April 2020. The directors consider the Covid-19 pandemic to be a non-adjusting post balance sheet event. However, should the pandemic result in a depressed CPO price for a prolonged period, this could impact the directors' assessment of the valuation of property, plant and equipment and recognition of deferred tax assets (see "Plantation assets" and "Deferred tax assets" in note 1 in the annual report). Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels (see statement on "Going concern" in the "Directors' report" of the annual report).

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