

Final Results

RNS Number : 3160F
R.E.A.Hldgs PLC
21 April 2011

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

ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2010 (including notice of the annual general meeting to be held on 14 June 2011) (the "annual report") is now available for downloading from the company's web site at www.rea.co.uk.

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 www.hemscott.com/nsm.do.

The sections below entitled "Chairman's statement", "Risks and uncertainties" 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

- Crop of fresh fruit bunches of 518,742 tonnes (2009: 490,178 tonnes), an increase of 6%
- Revenue of \$114 million (2009: \$79 million), an increase of 45%
- Profit before tax of \$50.4 million (2009: \$41.7 million), an increase of 21%, after gain on revaluation of biological assets of \$1.6 million (2009: \$9.8 million)
- 32,083 hectares planted or under development at 31 December 2010, an increase of 1,093 hectares during the year
- 2010 planting programme delayed by introduction of new government requirement for IPK licences for all new plantation developments. Extension planting now resumed after issuance of first such licence in January 2011 and a second in March 2011
- Mining operations on the Kota Bangun coal concession started in November 2010 with initial coal sales of 15,000 tonnes scheduled for April 2011.

CHAIRMAN'S STATEMENT

Results

Group profit before tax for 2010 at \$50.4 million was well ahead of the \$41.7 million reported for 2009.

Underlying the increased profit and cash flow was the higher revenue for 2010 which amounted to \$114.0 million, 45 per cent ahead of 2009 revenue of \$78.9 million. This reflected the combined effect of the higher average crude palm oil ("CPO") and crude palm kernel oil ("CPKO") prices prevailing during 2010, the larger crop and initial coal sales of \$4.2 million.

The benefit of the higher revenue was offset to an extent by an increase in cost of sales which rose by 43 per cent from \$34.0 million to \$48.6 million. Several factors contributed to this increase: increased production; costs of \$3.9 million attributable to the new coal activities; the higher unit cost of cropping in the significant area of newly mature plantings; general cost inflation; and weakening of the US dollar against the Indonesian rupiah which meant that rupiah denominated costs increased in US dollar terms.

IFRS fair value gains for 2010 at \$2.0 million were significantly lower than the \$11.3 million reported in 2009. The reduction in the net gain arising from changes in fair value of agricultural inventory (\$0.4 million against \$1.5 million) reflected a lower closing stock at the end of 2010 than at the end of the preceding year. More significant was the reduction in the net gain from changes in the fair value of biological assets (\$1.6 million against \$9.8 million) which was principally caused by the continuing inflation in planting costs. This meant that the value of additions to prospective crops from new development during 2010 showed a lower surplus over the value of crops harvested during the year than was the case in 2009.

Administrative expenses increased from \$7.2 million to \$10.2 million in part because of inflation and a lower capitalisation rate (reflecting the increasing ratio of mature to immature areas) but also because of an increased administrative requirement reflecting the growth of the group's business and, in particular, the need to manage the expanding smallholder programmes. Some offset against the costs of this last was provided by management fees paid to the group by smallholder cooperatives which are included in 2010 operating income of \$0.4 million.

At the after tax level, group profit for the year was \$35.0 million against \$29.9 million in 2009 while profit attributable to ordinary shareholders was \$32.3 million against \$27.1 million. Fully diluted earnings per share amounted to US 96.8 cents (2009: US 81.4 cents).

A provision of \$5.5 million relating to tax connected with a cash flow hedge has been charged to other comprehensive income for 2010. This provision relates to tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by the group to hedge, against US dollars, the group's liability in respect of its outstanding 9.5 per cent guaranteed sterling notes 2015/17. The group has been advised by its professional advisers that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise, but an Indonesian tax assessment recently received by an Indonesian subsidiary of the company has denied the tax relief claimed by the subsidiary for 2008 in relation to the swaps in question. The group is appealing against this assessment but, pending a decision on the appeal, the directors have felt it appropriate to recognise the inherent uncertainties of the appeal process by making a provision equivalent to approximately half of the tax relief claimed. The disputed Indonesian tax assessment has been paid in full pending appeal.

After reversal of non cash items included in operating profit, operating cash flows before movements in working capital increased during 2010 by \$19.3 million from \$40.1 million to \$59.4 million. However, net cash from operating activities for 2010 amounted to \$21.3 million in 2010 against \$29.6 million in 2009. The apparent disparity of an increase in operating cash flows before movements in working capital and a reduction in net cash from operating activities is principally the result of two items: increase in receivables, which amounted to \$10.3 million in 2010 against \$2.7 million in 2009, and taxes paid, which amounted to \$21.1 million in 2010 against \$2.3 million in 2009. The former reflected additional receivables in the group balance sheet at 31 December 2010 arising from the group's new coal trading activity while the latter was largely attributable to the payment during 2010 of the disputed Indonesian tax assessment referred to above and now the subject of appeal.

Agricultural operations

Operational matters

The crop out-turn for 2010 amounted to 518,742 tonnes of oil palm fresh fruit bunches ("FFB"). This represented an increase of 5.8 per cent on the FFB crop for 2009 of 490,178 tonnes but was below the budgeted crop for the year of 561,680 tonnes. External purchases of FFB from smallholders and other third parties in 2010 totalled 20,089 tonnes (2009: 13,248 tonnes).

Rainfall across the group's estates averaged 4,434 mm for 2010, compared with 3,123 mm for the previous year. Although the high level of rainfall caused some disruptions to harvesting in the last quarter of 2010, the directors believe that the principal reason for the crop shortfall against budget was the extended drier period experienced in 2009 coincident with an occurrence of the El Niño weather phenomenon.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 538,831 tonnes (2009: 503,426 tonnes), produced 127,256 tonnes of CPO (2009: 118,357 tonnes) and 24,614 tonnes of palm kernels (2009: 23,740 tonnes) reflecting extraction rates of 23.62 per cent for CPO (2009: 23.51 per cent) and 4.57 per cent for kernels (2009: 4.72 per cent). Production of CPKO amounted to 9,745 tonnes (2009: 9,636 tonnes) with an extraction rate of 40.07 per cent (2009: 40.04 per cent).

A major overhaul of the group's older oil mill was initiated during 2010. As a result of ageing mill machinery and deterioration in one of the mill boilers, it was becoming difficult to operate the mill at its intended capacity of 80 tonnes per hour. The overhaul involves upgrading of machinery and the installation of a new boiler. This should restore the effective mill capacity to 80 tonnes per hour. The overhaul is currently on schedule and should be completed before the start of the 2011 peak cropping period in September. Meanwhile, the group's newer oil mill was expanded during 2010 to increase its capacity from 60 to 80 tonnes per hour.

The upgrading of the older mill and expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2011 but by 2012 the group will require a third mill. Work is already in hand on the construction of this third mill and it is expected that mill commissioning will be completed ahead of the peak cropping months of 2012. The third mill will incorporate its own kernel crushing plant.

Investments made in 2009 in increased mechanical handling of FFB collection and transport and in establishing an "in house" road maintenance capability have proved successful and resulted in significant savings during 2010. The relatively new system for composting empty fruit bunches and oil mill effluent is also proving effective. The area in respect of which compost was substituted for inorganic fertiliser in 2010 amounted to 6,763 hectares and is projected to amount to over 9,000 hectares in 2011.

During 2011, the group is aiming to make further cost savings from the recycling of waste by establishing two methane conversion plants. Each plant will be constructed adjacent to an existing oil mill and will be based around a lagoon covered with inflatable high density polyethylene sheeting. Mill effluent will pass to the lagoon which is designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process will be captured and used to fuel one or more gas powered generators. Methane that is surplus to requirements for electricity generation will be flared off. The electricity generated from the captured methane will be supplied to a number of estate villages, thereby reducing materially the requirement for diesel generated electricity. Because the methane conversion plants will reduce the group's greenhouse gas emissions (and thus the group's carbon footprint), the group expects to obtain carbon credits under the Clean Development Mechanism for the period from completion of the plants up to 2020.

Land allocations and development

The group's land titling made further progress during 2010 to the extent that the fully titled agricultural land area held by the group amounted at year end to 63,263 hectares (2009: 52,029 hectares). During the year, the group was successful in obtaining a renewed allocation of 15,000 hectares out of a total area of 20,000 hectares in respect of which a land allocation previously held by the group had expired. The renewed allocation is conditional upon completion of a planned rezoning of East Kalimantan which is slowly progressing through the governmental authorities who must approve it. As a result, the group held land allocations at 31 December 2010 covering a total area of 31,500 hectares.

Since 31 December 2010, 7,321 hectares from one land allocation of 7,445 hectares has been granted full HGU title and the 124 hectare balance of the allocation has been relinquished. The full titling of the remaining land allocations must be expected to result in exclusion of further allocated areas. Moreover, not all of the areas in respect of which full titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion will be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the prospective maximum area that the group could plant with oil palms on the fully titled and allocated agricultural land areas currently held must be expected to be less than the gross hectareage that those areas comprise.

Areas planted and in course of development as at 31 December 2010 amounted in total to 32,083 hectares. Of this total, mature plantings comprised 21,984 hectares. A further 3,450 hectares planted in 2007 came to maturity at the start of 2011.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted development and necessary land clearing licences, and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. During 2010, progress of the group's plans for oil palm extension planting was seriously delayed by hold ups in the issue of necessary permits and in particular of the recently introduced timber cutting licences ("IPKs"). This reflected, at least in part, a lack of clarity on the part of the relevant authorities as to the procedure to be followed by plantation company applicants seeking to obtain these newly required permits. As a result, the aggregate area planted or under development increased over 2010 by only some 1,000 hectares, all of which related to areas that were exempted from the IPK requirement having been already under development when this requirement was introduced.

Encouragingly, the group did finally secure its first IPK in January 2011 and a further IPK was issued in March. This has permitted the resumption of extension planting. Moreover, the group believes that the relevant authorities, having now started to issue IPKs, will be able to process the group's further IPK applications

more quickly than was the case immediately after the new IPK requirement came into force. The group therefore retains its oil palm planting target for the two year period ending 31 December 2011 of 8,000 hectares in total. The directors believe that this target remains achievable but whether it will actually be achieved will be critically dependent upon land becoming available for development as needed.

Social responsibility

The area planted or under development on the group supported plasma schemes increased during 2010 from 1,578 hectares to 3,076 hectares. The areas developed to-date are owned by cooperatives with members from 9 local villages. During 2011, it is planned to increase the number of villages participating in the schemes by adding further co-operatives. The plasma development programme for 2011 has been budgeted at 1,000 hectares. External financing for the plasma schemes initiated to-date has been agreed with a local development bank in East Kalimantan in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. If necessary, this financing will be supplemented by funds advanced by the group.

The group's conservation department (conducting its activities under the name "REA Kon") is continuing with its establishment of a permanent database of flora and fauna found within the group's conservation reserves and neighbouring watercourses. Other activities of REA Kon during 2010 included a project to recycle plastic waste, the initiation of a study of the contribution of forest predators to pest control within oil palm plantings and a first children's educational camp at the new REA Kon field station located within the conservation reserves, construction of which was completed in October 2010.

All operations of the company's two main operating subsidiaries in Indonesia have now obtained ISO 14001 accreditation. Audit of one of these subsidiaries and its associated smallholders for Roundtable on Sustainable Palm Oil ("RSPO") accreditation (conducted by an RSPO approved independent auditor) took place in early 2011 and has recommended that the subsidiary and its associated smallholders be granted accreditation. Audit of the second subsidiary for RSPO accreditation is planned for later in 2011.

Coal operations

Whilst it is taking longer than originally hoped to develop the coal operations, good progress has been made.

The major concentration during 2010 was on bringing the Kota Bangun concession into production. Land compensation was completed, mining and environmental management plans settled, necessary permits for mining operations obtained and arrangements for evacuating mined coal concluded. Removal of overburden (being earth and rock overlaying the coal) started in November 2010, the first coal seams were exposed in January 2011 and initial shipments of some 15,000 tonnes of coal are scheduled for April 2011. The stripping ratio (being the amount of overburden required to be removed to gain access to the coal expressed as the number of bank cubic metres of overburden in situ to be removed to extract one tonne of coal) is under the present mining plan expected to be 30 to 1. As previously announced, the group is aiming to build up to a production level within 2011 of at least 16,000 tonnes per month. Arrangements have been agreed for the sale of current production from the Kota Bangun concession to two buyers. Selling prices will be fixed against deliveries of the coal on a basis related to the Newcastle globalCOAL index. The average price currently being realised is \$137 per tonne.

Operations at the Liburdinding concession have been less satisfactory. Original plans to mine 150,000 tonnes during 2010 had to be abandoned when it became clear that the relatively high sulphur content of the coal was making it difficult to sell. Coal production at Liburdinding in 2010 therefore amounted to some 21,000 tonnes only. A limited market for the coal has been found in Java and this seems

capable of selling 3,000 to 4,000 tonnes per month on a regular basis. For mining to be economic, Liburdinding needs to produce at a level of at least 15,000 tonnes per month and this means that an export market for the coal is needed. The group has looked at blending Liburdinding coal with low sulphur traded coal purchased from third parties and this remains an option. However, with the higher prices for coal that are currently prevailing, the group would prefer to sell the Liburdinding production without blending and to accept a discount for the sulphur content. Discussions to this end with possible purchasers are continuing.

The position as respects the group's plans to establish a limited coal trading activity is more positive. Sales of traded coal in 2010 (which started in the second half of the year) totalled 71,000 tonnes. Since the start of 2011, the group has been able to formalise trading relationships with two major export buyers and is aiming within the current year to be achieving average monthly sales of 100,000 tonnes. The objectives for the coal trading activity are to augment the revenues from the mining of the Kota Bangun and Liburdinding concessions and to establish a customer base on which the group can build. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group intends that, in due course, it will enter into long term arrangements to procure a proportion of the coal that it trades by mining third party owned concessions against payment of a royalty.

Finance

840,689 new ordinary shares of the company were issued on 1 February 2010 on exercise of a director's option at an exercise price of 43.753p per share. In addition, in February, with the object of funding the new coal operations, the company issued an additional \$15 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") at \$90 per \$100 nominal of notes in conjunction with the issue by a wholly owned subsidiary of the company, KCC Resources Limited ("KCC"), of 150,000 redeemable participating preference shares of \$10 each at par. The effect of the additional dollar note issue was to increase the nominal amount of dollar notes in issue to \$45 million.

1,670,727 new preference shares were issued in October 2010 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" below. This was followed later in the same month by the issue of 9 million new preference shares for cash at par to raise £9 million.

Following these issues, group indebtedness and related engagements at 31 December 2010 amounted to \$132.1million, made up of \$45 million nominal of dollar notes (carrying value: \$43.3 million), £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: \$55.2 million), \$11.6 million in respect of a hedge of the principal amount of the sterling notes, \$1.5 million in respect of the KCC participating preference shares (which are classified as debt), term loans from Indonesian banks of \$14.7 million and other short term indebtedness comprising drawings under working capital lines of \$5.8 million. Against this indebtedness, at 31 December 2010 the group held cash and cash equivalents of \$36.7 million.

Changes to Indonesian tax regulations effective from the beginning of 2010 meant that Indonesian withholding tax on interest payments on certain intra-group loans to Indonesian subsidiaries of the company (being loans that formed part of the assets then charged as security for the sterling notes) which had been payable at the rate of 10 per cent became payable at the rate of 20 per cent. The security for the sterling notes was therefore reorganised during 2010 to achieve a structure in which the withholding tax rate on interest on charged intra-group loans would revert to 10 per cent.

Planned extension planting and the requirement for investment in estate buildings and other estate plant and equipment that follows any expansion of the group's planted hectareage will involve the group in continuing major capital expenditure for

several years to come. In addition, construction of the group's third oil mill and the two methane conversion plants is likely to involve an outlay of in excess of \$25 million over 2011 and 2012. If CPO prices remain at good levels, the directors expect that such capital expenditure can be funded from internal cash flow possibly supplemented by some additional drawings on existing bank facilities.

Provided that the coal operations evolve as planned, such operations should become cash generative during 2011. If that proves the case, the cash generated may be utilised for further expansion of the coal operations. The directors do not anticipate that the coal operations will require material cash support from elsewhere in the group during 2011, although short term cash advances may be made to meet temporary spikes in the working capital needed for coal trading.

Commodity markets are inherently volatile and the directors believe that it is prudent for the group to hold some cash cushion to ensure that when new oil palm areas are planted, those areas can be brought to maturity even if CPO and CPKO prices fall sharply. However, the cash and cash equivalents held by the group at 31 December 2010, which reflected the proceeds of the issue of new preference shares made in October 2010, was in excess of the amount required for that purpose. Some \$5 million of such cash resources has already been applied during 2011 in retiring debt and the directors intend that further cash resources should be applied for the same purposes before the end of 2011.

The directors consider that it will be prudent, when market conditions permit, to retire existing shorter dated debt and to replace it with preference share capital or new debt of a longer tenor. The October 2010 issue of new preference shares was made with this intention and the directors may consider further issues of medium term debt securities or new preference shares for the same purpose.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2010 were duly paid. Dividends totalling 5p per ordinary share have been paid in respect of 2010 (2009 - 4p per ordinary share). These comprised a first interim dividend of 2½p per ordinary share paid on 1 October 2010 and a second interim dividend of 2½p per ordinary share paid on 28 January 2011. In addition, the company made a capitalisation issue to ordinary shareholders of 1,670,727 new preference shares on the basis of one new preference share for every 20 ordinary shares held on 24 September 2010.

For some years, the directors have followed the practice of declaring two interim dividends in respect of each financial year, the first in late September or early October of the year in question and the other at the start of the succeeding year. This has meant that the company has not in recent years paid a final dividend. One corporate governance agency has criticised this practice as depriving shareholders of the opportunity to vote on the level of overall dividend paid by the company. To respond to this criticism, the directors propose that, notwithstanding that the second interim dividend paid in January was intended to be paid in lieu of final dividend, a dividend should be paid in September 2011 as a final dividend in respect of 2010 and that this dividend should substitute for the interim dividend in respect of 2011 that the directors would otherwise have expected to declare for payment at that time. Dividends declared or proposed by directors in respect of 2011 and subsequent years would then be expected to comprise an interim dividend in the January following the end of the applicable year and a final dividend payable in the following September.

Accordingly, the directors recommend the payment of a final dividend in respect of 2010 of 3p per ordinary share to be paid on 30 September 2011 to ordinary shareholders on the register of members on 2 September 2011. The directors wish to emphasise that in proposing that a final dividend in respect of 2010 be substituted for a first interim dividend in respect of 2011, they do not intend to signal a change in the prospective level of dividends payable to shareholders

during any particular year but only to recharacterise one dividend in each year as a final dividend upon the payment of which shareholders can vote.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in 2010 and on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors will therefore consider a further such issue during 2011 if they feel that this is merited by the group's performance.

Staff

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

In particular, the directors would like to record their appreciation of the contribution made to the group by Mr Derrick Egerton who sadly died in January 2011 after a short illness. He had worked for the group for nearly twenty years in what was originally intended to be a part time capacity after his retirement as finance director of Harrisons & Crosfield Limited and, almost single-handedly, held together the group's accounting and secretarial functions during the difficult period experienced by the group during and following the economic and political turbulence in Indonesia in the late 1990s. His ability to take on and competently deal with a vast range of administrative tasks will be much missed.

Succession

The group is proceeding with its previously announced plan to establish a small regional office in Singapore. A senior executive has recently been recruited to head this office and it is intended that the office should begin operating during 2011. Thereafter, staffing will be increased to an extent appropriate to enable the Singapore office progressively to assume many of the management functions currently performed by the group's head office in London.

The group has also taken steps to enhance management capacity in Indonesia with the appointment of an additional senior executive to fill the newly created position of chief financial officer for the agricultural operations. With this position filled, the group believes that it now has in place the senior management needed to handle the planned further expansion of the agricultural operations. Some further recruitment for the coal operations is likely to be necessary if those operations develop as is hoped.

The directors have previously expressed concern as to whether the current ownership of the group's Indonesian businesses through a UK listed company is an appropriate long term structure for the group or whether the group would be better structured as an entirely South East Asian based entity with a parent company listed in that region. Arguments in favour of such a move include the reduction in head office costs that could be expected, the better rating of the group's parent company's shares that might be achieved on, for example, the Singapore Stock Exchange and the arguably wider research coverage of South East Asian companies operating in the agricultural sector. Against this, the company's existing investor base is almost entirely in Europe and the company's UK listing has, in recent years, afforded the company good access to equity and debt when needed. In the "Review of the group" in the company's 2009 annual report, the directors stated that they had concluded that, whilst the matter should be kept under review, the current status quo of the group with a UK listed parent company should be retained. That conclusion is currently being reconsidered by the directors.

Two factors have prompted such reconsideration. First, in the face of emigrations by some major UK companies and suggestions that more may follow in an effort to avoid UK tax and in some cases restrictions on bonus payments, there have been

reports of possible UK legislation to inhibit UK companies transferring themselves overseas. Any decision by the group to move from the UK would not be motivated by either tax or bonus restriction avoidance (indeed there would be no benefit to the group in either respect) but the directors are concerned that legislation designed to prevent others from transferring might remove the flexibility to transfer that the group currently enjoys. Secondly, whilst the group remains in the UK, it requires staff to undertake its administrative functions. This requires periodic recruitment and such recruitment is made more complicated if the company's continued presence in the UK remains uncertain. If an eventual transfer is contemplated, both of the foregoing factors militate against leaving such transfer pending.

Prospects

The group's own FFB crop for 2011 has been budgeted at 611,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). The FFB crop to end March 2011 amounted to 135,424 tonnes against the budget for the period of 141,117 tonnes. The directors do not believe that any conclusions as to the likelihood of the group achieving its budgeted crop for 2011 should be drawn from the slight shortfall as variations from year to year in the monthly phasing of each year's crop are normal. External purchases of FFB during 2011 have been budgeted at 25,000 tonnes.

The rise in CPO prices seen in 2009 continued into 2010. After opening the year at a little above \$800 per tonne, CIF Rotterdam, and remaining broadly at that level for the first six months of 2010, the price rose further in the third quarter of the year to \$935 per tonne at the end of September 2010 and then again, and even more sharply, in the last quarter to close the year at \$1,285 per tonne. Prices have remained comfortably over the \$1,000 per tonne level so far in 2011 and at times CPO has traded at above \$1,300 per tonne. At these higher prices, the progressive nature of the Indonesian duty levied on exports of CPO does however mean that the major proportion of any price in excess of \$900 per tonne accrues to the Indonesian state rather than CPO producers.

The current historically high prices of CPO and other vegetable oils (which have appreciated commensurately) are attributable to a number of factors: the demand drivers of population growth and developing world economic growth; increasing petroleum oil prices that are improving the economics of converting vegetable oils to bio-fuels; and the combined impact of the El Niño and La Niña weather phenomena that have held back production. For 2011, consumption may outstrip production and with stocks low and the annual oilseed crops competing for land with wheat and corn, which are also at high prices and in strong demand, CPO prices could reasonably be expected to remain at good levels throughout 2011.

The current unrest in the Middle East and the after effects of the Japanese tsunami could negatively impact the world economy leading to some downturn in food demand for vegetable oil but, against this, they could also result in higher petroleum oil prices and a consequential increase in the floor price for vegetable oil that the bio-diesel conversion option provides. Nevertheless, the directors retain their view that vegetable oil markets will remain cyclical and that it is therefore likely that the current high prices will eventually result in increased supply and lead to lower prices albeit probably not in 2011.

The directors remain cautious as to the extent and speed to and at which the planned continued expansion of the group's oil palm hectareage can be delivered and are reluctant to assume the success of the group's new venture in coal before this has been proved by bankable results. That said, they are encouraged that, in recent months, the group has made progress in resolving outstanding land issues and can see that, if successful, the new coal operations could be further expanded into a material activity for the group. With CPO and CPKO prices looking set to remain at or near current levels for several months to come, the directors believe that 2011 should be another good year for the group.

ANNUAL GENERAL MEETING

The company's fifty-first annual general meeting will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 14 June 2011 at 10.00 am.

A resolution will be proposed at the annual general meeting to increase the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) from £37,750,000 to £55,250,000 by the creation of 17,500,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing preference shares of the company and representing 63.6 per cent of the existing authorised preference share capital of the company.

PRINCIPAL RISKS AND UNCERTAINTIES

The group's business involves risks and uncertainties. Those risks and uncertainties that the directors currently consider to be 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.

Agricultural operations

Climatic factors

Although the group's agricultural operations are located in an area of high rainfall with sunlight hours well suited to the cultivation of oil palm, climatic conditions vary from year to year and setbacks are possible.

Unusually high levels of rainfall can disrupt estate operations and result in harvesting delays with loss of oil palm fruit or deterioration in fruit quality. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit. Over a long period, crop levels should be reasonably predictable but there can be material variations from the norm in individual years.

Low levels of rainfall can also disrupt and, in an extreme situation (not to date experienced by the group) could bring to a standstill the river transport upon which the group is critically dependent for estate supplies and the evacuation of CPO and CPKO.

Cultivation risks

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

Other operational factors

The group's agricultural productivity is dependent upon necessary inputs, including, in particular, fertiliser and fuel. Whilst the directors have no reason to anticipate shortages in the availability of such inputs, should such shortages occur over any extended period, the group's operations could be materially disrupted. Equally, increases in input costs are likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop.

The group endeavours to maintain resilience in its palm oil mills with two mills operating separately and some ability within each factory to switch from steam based to diesel based electricity generation but such resilience would be inadequate to compensate for any material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of agricultural operations and at its transshipment terminal downstream of the port of Samarinda. Such facilities and the further storage facilities afforded by the group's fleet of barges have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage. Nevertheless, disruptions to river transport between the main area of operations and the port of Samarinda, or delays in collection of CPO and CPKO from the transshipment terminal, could result in a group requirement for CPO and CPKO storage exceeding the available capacity. This would be likely to force a temporary cessation in FFB processing with a resultant loss of crop.

The group maintains insurance for the agricultural operations to cover those risks against which the directors consider that it is economic to insure. Certain risks (including the risk of crop loss through fire and other perils potentially affecting the planted areas on the group's estates), for which insurance cover is either not available or would in the opinion of the directors be disproportionately expensive, are not insured. These risks are mitigated to the extent feasible by management practices but an occurrence of an adverse uninsured event could result in the group sustaining material losses.

Produce prices

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

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

In the past, in times of very high CPO prices, the Indonesian authorities have for short periods imposed either restrictions on the export of CPO and CPKO or very high duties on export sales of such oil. The directors believe that when such measures materially reduce the profitability of oil palm cultivation, they are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia and to the Indonesian economy as a whole (because CPO is an important component of Indonesia's US dollar earning exports). The directors are thus hopeful that future measures affecting sales of CPO and CPKO will not seriously diminish profit margins.

Above average CPO and CPKO prices during 2007 and the early months of 2008 and again more recently in 2010 and 2011 to-date have not led to a re-imposition of export restrictions. Instead, the Indonesian government continues to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on exports. Furthermore, the starting point for this sliding scale is set at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil. Nevertheless there have been reports that the Indonesian government may take steps to encourage domestic downstream processing of CPO and CPKO and may impose domestic sale obligations on oil palm growers from 2015.

World markets for CPO and CPKO may be distorted by the imposition of import controls or taxes in consuming countries. The directors believe that the imposition

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

Expansion

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

Any shortfall in achieving planned extensions of the group's planted areas would be likely to impact negatively the annual revaluation of the group's biological assets, the movements upon which are taken to the group's income statement. Whilst this would not affect the group's underlying cash flow, it could adversely affect market perceptions as to the value of the company's securities.

Environmental, social and governance practices

The group recognises that the agricultural operations are both a large employer and have significant economic importance for local communities in the areas of the group's operations. This imposes environmental, social and governance obligations which bring with them risks that any failure by the group to meet the standards expected of it may result in reputational and financial damage. The group seeks to mitigate such risks by establishing standard procedures to ensure that it meets its obligations, monitoring performance against those standards and investigating thoroughly and taking action to prevent recurrence in respect of any failures identified. In addition, the group commissions independent consultants to undertake periodic reviews of its management performance in relation to various matters and this review pays particular attention to the manner in which the group has discharged its corporate social responsibilities.

The group's existing agricultural operations and the planned expansion of those operations are based on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development on the basis that, regrettable as it may be from an environmental viewpoint, the logging has been so extensive that primary forest is unlikely to regenerate. Such land areas fall within a region that elsewhere includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna. As such, the group, in common with other oil palm growers in Kalimantan, must expect scrutiny from conservation groups and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

An environmental impact assessment and master plan was constructed using independent environmental experts when the group first commenced agricultural operations in East Kalimantan and this plan is updated regularly with further advice from independent experts to reflect modern practice and to take account of changes in circumstances (including planned additions to the areas to be developed by the group). Substantial conservation reserves have been established in areas already developed by the group and further reserves will be added as new areas are developed. The group actively manages these reserves and endeavours to use them to conserve landscape level biodiversity as detailed under "Conservation" in "Agricultural operations" above.

The group is committed to sustainable oil palm development and adopts the measures described under "Sustainable practices" in "Agricultural operations" above to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports the principles and criteria established by RSPO and is at an advanced stage in obtaining RSPO accreditation.

Local relations

The agricultural operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in the vicinity of the operations. The group endeavours to mitigate this risk by liaising regularly with representatives of surrounding villages and by seeking to improve local living standards through mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group, when possible, gives priority to applications for employment from members of the local population and supports specific initiatives (as described under "Community development" and "Smallholders" in "Agricultural operations" above) to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and to promote smallholder development of oil palm plantings.

The group's agricultural operations are established in a relatively remote and sparsely populated area which was for the most part unoccupied prior to the group's arrival. However, some areas of land were previously used by local villagers for the cultivation of crops. Accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.

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

Coal operations

The directors have previously expressed their belief that the most material risk attaching to the coal operations is the risk that the directors, with no prior experience of mining, may have misjudged the potential of the operations and that the operations do not become commercially viable. In that event some or all of the group capital invested in the operations may be lost. This remains a risk but the directors believe that with the levels of activity now being achieved, it is a diminishing risk. The more material risks specific to coal that the directors currently foresee are as described below.

Operational risks

Coal delivery volumes are dependent upon efficiency of production and of transport of extracted coal from mines to points of sale. Both production and transport can be disrupted by heavy rains, such as are common in East Kalimantan. Heavy seas can cause delays to the barging of coal to its point of sale. Failure to achieve budgeted delivery volumes will increase unit costs and may result in operations becoming unprofitable. Whilst weather related impacts cannot be avoided, the group uses experienced contractors, supervises them closely and takes care to ensure that they have equipment of capacity appropriate for the planned delivery volumes.

Failure to load export shipments to an agreed schedule may result in demurrage claims (damages payable for delays) which may be material. The group

endeavours to minimise this risk by direct supervision of loading of large shipments and, where possible, by loading barges used for transferring coal from shore to ship ahead of arrival of ships.

Mining plans are based on geological assessments and the group seeks to ensure the accuracy of those assessments by extensive drilling ahead of any implementation of the plans. Nevertheless geological assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. In that event, unforeseen extraction complications can occur and may cause cost overruns and delays.

Price risk

The profitability and cash flow of the coal operations will depend both upon world prices of coal and upon the group's ability to sell its coal at price levels comparable with such world prices. Coal is a primary commodity and as such is affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings. Coal is sold on the basis of its calorific value and other aspects of its chemical composition. Supply and demand for specific grades of coal and consequent pricing may not necessarily reflect overall coal market trends and the group may be adversely affected if it is unable to supply coal within the specifications that are at any particular time in high demand.

The Indonesian government has stated that it intends to impose obligations on coal concession holders to sell domestically a proportion of the coal that they mine. If obligations imposed mean that domestic sales of coal have to be made at prices that are below world market prices (and it is not yet known whether this will be the case) the group's prospective revenues from coal sales will be reduced.

Environmental practices

Open cast coal mining, as conducted on the coal concessions in which the group has invested, involves the removal of substantial volumes of overburden to obtain access to the coal deposits. The prospective areas to be mined by the group do not, however, cover a large area and the group is committed to international standards of best environmental practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could be adversely affected by environmental criticisms of the coal mining industry as a whole.

General

CPO, CPKO and coal are essentially US dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's operations are effectively US dollar denominated.

All of the group's borrowings other than the sterling notes (as respects which the group has entered into sterling US dollar debt swap arrangements) and drawings by SYB under the DBS amortising Indonesian rupiah loan facility, are US dollar denominated and a substantial proportion of the group's costs (including fertiliser and machinery inputs) is US dollar denominated or linked.

Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiah and sterling may, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

The group's hedging strategy as respects the sterling notes may itself give rise to risk given the contention of the Indonesian tax authorities (as referred to under "Group results" in "Finances" above) that mark to market losses in Indonesia on

debt swap arrangements hedging the notes may not be deducted from chargeable profits for Indonesian tax purposes.

Counterparty risk

Export sales of CPO, CPKO and coal are made either against letters of credit or on the basis of cash against documents. However, domestic sales of CPO, CPKO and coal may require the group to provide some credit to buyers and purchases of coal for trading may require the group to part pay ahead of delivery. The group seeks to limit the counterparty risk that such credit and prepayments entail by effective credit controls. Such controls include regular reviews of buyer creditworthiness and limits on the term and amount of credit that may be extended to any one buyer and in total.

Regulatory exposure

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

Agricultural land and mining rights held by the group are subject to the satisfaction by the group of various continuing conditions, including, as respects agricultural land, conditions requiring the group to promote smallholder developments of oil palm.

Although the group endeavours to ensure that its activities are conducted only on the land areas, and within the terms of the licences, that it holds, licensing rules change frequently and boundaries of large land areas are not always clearly demarcated. There is therefore always a risk that the group may inadvertently and to a limited extent conduct operations for which it does not hold all necessary licences or operate on land for the use of which it does not have all necessary permits.

The Bribery Act 2010, which applies worldwide to interests of UK companies, has created an offence of failure by a commercial organisation to prevent a bribe being paid on its behalf. It will be a defence if the organisation has adequate procedures in place to prevent bribery and the group has traditionally had strong controls in this area because the group operates predominantly in Indonesia, which is classified as high risk by the International Transparency Corruption Perceptions Index 2010. To mitigate further the risk that this poses, and in anticipation of the Bribery Act coming into effect in 2011, the group is reviewing its framework of controls to ensure that it will comply with the provisions of the Act.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. However, during 2010 Indonesia remained stable and the Indonesian economy continued to grow.

Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and has never, since the inception of its current operations in East Kalimantan, been adversely affected by security problems.

Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles or mining rights in which the group has invested or that any such authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Miscellaneous relationships

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

Relationships with shareholders in Indonesian group companies are also important to the group and especially so as respects the mining concessions in which the group holds interests which are at the moment 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.

DIRECTORS' CONFIRMATION OF RESPONSIBILITY

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

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

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

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	\$'000	\$'000
Revenue	114,039	78,885
Net gain arising from changes in fair value of agricultural produce inventory	455	1,556
Cost of sales	(48,581)	(33,951)
Gross profit	65,913	46,490
Net gain arising from changes in fair value of biological assets	1,588	9,765
Other operating income	449	-
Distribution costs	(1,455)	(1,303)
Administrative expenses	(10,228)	(7,234)
Operating profit	56,267	47,718

Investment revenues	1,894	827
Finance costs	(7,714)	(6,828)
Profit before tax	50,447	41,717
Tax	(15,474)	(11,861)
Profit for the year	34,973	29,856
Attributable to:		
Ordinary shareholders	32,325	27,119
Preference shareholders	2,360	2,219
Non-controlling interests	288	518
	34,973	29,856
Earnings per 25p ordinary share		
Basic	97.0 cents	83.3 cents
Diluted	96.8 cents	81.4 cents

All operations for both years are continuing

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010

	2010	2009
	\$'000	\$'000
Non-current assets		
Goodwill	12,578	12,578
Biological assets	221,883	204,087
Property, plant and equipment	85,488	72,258
Prepaid operating lease rentals	17,277	14,117
Indonesian coal interests	18,864	12,859
Deferred tax assets	5,743	5,037
Non-current receivables	1,417	1,276
Total non-current assets	363,250	322,212
Current assets		
Inventories	14,006	13,376
Trade and other receivables	28,662	14,340
Cash and cash equivalents	36,710	22,050
Total current assets	79,378	49,766
Total assets	442,628	371,978
Current liabilities		
Trade and other payables	(12,833)	(13,169)
Current tax liabilities	(8,973)	(9,016)
Obligations under finance leases	-	(64)
Bank loans	(7,850)	(1,500)

Other loans and payables	(604)	(412)
Total current liabilities	(30,260)	(24,161)
Non-current liabilities		
Bank loans	(12,625)	(8,719)
Sterling notes	(55,244)	(56,965)
US dollar notes	(43,269)	(29,677)
Preference shares issued by a subsidiary	(1,500)	-
Hedging instruments	(17,726)	(13,609)
Deferred tax liabilities	(41,010)	(39,478)
Other loans and payables	(5,474)	(4,701)
Total non-current liabilities	(176,848)	(153,149)
Total liabilities	(207,108)	(177,310)
Net assets	235,520	194,668
Equity		
Share capital	60,548	43,188
Share premium account	24,901	27,297
Translation reserve	(18,197)	(13,630)
Retained earnings	166,228	136,499
	233,480	193,354
Non-controlling interests	2,040	1,314
Total equity	235,520	194,668

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010	2009
	\$'000	\$'000
Profit for the year	34,973	29,856
Other comprehensive income		
Exchange differences on translation of foreign operations	3,644	(6,615)
Changes in fair value of cash flow hedges	(3,492)	12,981
Tax relating to components of other comprehensive income	(4,676)	(3,567)
Share based payment - deferred tax credit	-	743
	(4,524)	3,542
Total comprehensive income for the year	30,449	33,398

Attributable to:

Ordinary shareholders	27,758	30,620
Preference shareholders	2,360	2,219
Minority interests	331	559
	<u>30,449</u>	<u>33,398</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	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 2009	40,714	27,322	(16,388)	110,383	162,031	580	162,611
Total comprehensive income	-	-	2,758	30,081	32,839	559	33,398
Issue of new preference shares	2,474	(25)	-	-	2,449	-	2,449
Dividends to preference shareholders	-	-	-	(2,219)	(2,219)	-	(2,219)
Dividends to ordinary shareholders	-	-	-	(1,746)	(1,746)	-	(1,746)
Changes in minority	-	-	-	-	-	175	175
At 31 December 2008	<u>43,188</u>	<u>27,297</u>	<u>(13,630)</u>	<u>136,499</u>	<u>193,354</u>	<u>1,314</u>	<u>194,668</u>
Total comprehensive income	-	-	(4,567)	34,685	30,118	331	30,449
Issue of new ordinary shares	329	246	-	-	575	-	575
Issue of new preference shares (cash)	14,389	-	-	-	14,389	-	14,389
Issue of new preference shares (scrip)	2,642	(2,642)	-	-	-	-	-
Dividends to preference shareholders	-	-	-	(2,360)	(2,360)	-	(2,360)
Dividends to ordinary shareholders	-	-	-	(2,596)	(2,596)	-	(2,596)
Changes in minority	-	-	-	-	-	395	395
At 31 December 2009	<u>60,548</u>	<u>24,901</u>	<u>(18,197)</u>	<u>166,228</u>	<u>233,480</u>	<u>2,040</u>	<u>235,520</u>

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 \$'000	2009 \$'000
Net cash from operating activities	<u>21,292</u>	<u>29,644</u>
Investing activities		
Interest received	1,894	827

Proceeds on disposal of property, plant and equipment	158	-
Purchases of property, plant and equipment	(18,504)	(10,382)
Expenditure on biological assets	(15,824)	(16,626)
Expenditure on prepaid operating lease rentals	(3,505)	(1,303)
Changes in minority interests in subsidiaries	395	175
Investment in Indonesian coal rights	(6,005)	(7,473)
Net cash used in investing activities	(41,391)	(34,782)
Financing activities		
Preference dividends paid	(2,360)	(2,219)
Ordinary dividends paid	(2,597)	(1,746)
Repayment of borrowings	(1,500)	(13,817)
Repayment of obligations under finance leases	(64)	(54)
Proceeds of issue of ordinary shares	575	-
Proceeds of issue of preference shares	14,389	2,449
Proceeds of issue of preference shares by a subsidiary	1,500	-
Issue of dollar notes, net of expenses	13,071	-
Sterling note reconstruction expenses	(180)	-
New bank borrowings drawn	11,743	11,119
Net cash from/(used in) financing activities	34,577	(4,268)
Cash and cash equivalents		
Net increase/(decrease) in cash and cash equivalents	14,478	(9,406)
Cash and cash equivalents at beginning of year	22,050	30,316
Effect of exchange rate changes	182	1,140
Cash and cash equivalents at end of year	36,710	22,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accompanying financial statements and notes 1 to 14 below (together the "accompanying financial information") have been extracted without material adjustment from the statutory accounts of the company for the year ended 31 December 2010 (the "2010 statutory accounts"). The auditors have reported on those accounts; their reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2010 statutory accounts 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 2010 statutory accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use 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 2010 statutory accounts and the accompanying financial information were approved by the board of directors on 20 April 2011.

2. Revenue

	2010	2009
	\$'000	\$'000
Sale of goods	113,805	78,836
Revenue from services	234	49
	<hr/>	<hr/>
	114,039	78,885
Other operating income	449	
Investment income	1,894	827
	<hr/>	<hr/>
Total revenue	116,382	79,712
	<hr/>	<hr/>

3. Agricultural produce inventory movement

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

4. Segment information

In the table below, the group's sales of goods are analysed by geographical destination; the carrying amount of net assets and additions to property, plant and equipment are analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and the development of coal operations. In 2010 and 2009, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" and, accordingly, no analyses are provided by business segment.

	2010	2009
	\$'m	\$'m
Sales by geographical location:		
Indonesia	47.0	40.7
Rest of Asia	66.8	38.2
	<hr/>	<hr/>
	113.8	78.9
	<hr/>	<hr/>
Carrying amount of segment net assets by geographical area of asset location:		
UK and Continental Europe	23.8	17.3
Indonesia	211.7	177.4
	<hr/>	<hr/>
	235.5	194.7
	<hr/>	<hr/>
Additions or property, plant and equipment by geographical area of location:		
UK and Continental Europe	-	-
Indonesia	19.3	13.7
	<hr/>	<hr/>
	19.3	13.7
	<hr/>	<hr/>

5. Finance costs

2010	2009
\$'000	\$'000

Interest on bank loans and overdrafts	974	587
Interest on US dollar notes	3,883	2,338
Interest on sterling notes	5,666	5,989
Interest on obligations under finance leases	1	6
Other finance charges	1,910	1,467
	<hr/>	<hr/>
	12,434	10,387
Amount included as additions to biological assets	(4,720)	(3,559)
	<hr/>	<hr/>
	7,714	6,828
	<hr/>	<hr/>

Amount included as additions to biological assets arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 39.7 per cent (2009: 30.4 per cent); there is no directly related tax relief.

6. Tax

	2010	2009
	\$'000	\$'000
Current tax:		
UK corporation tax	1,042	-
Foreign tax (includes prior years \$nil (2009:\$69,000))	12,817	6,858
	<hr/>	<hr/>
Total current tax	13,859	6,858
	<hr/>	<hr/>
Deferred tax:		
Current year	1,615	5,003
	<hr/>	<hr/>
Total deferred tax	1,615	5,003
	<hr/>	<hr/>
Total tax	15,474	11,861
	<hr/>	<hr/>

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 25 per cent (2009: 28 per cent) and the deferred tax provision in 2010 and 2009 reflects the reduction in the corporate taxation rate from 30 per cent to 25 per cent, effective from 2010. For the United Kingdom, the taxation provision reflects a corporation tax rate of 28 per cent.

7. Earnings per share

	2010	2009
	\$'000	\$'000
Earnings for the purpose of earnings per share*	32,325	27,119
	<hr/>	<hr/>
* being net profit attributable to ordinary shareholders		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	33,343	32,574
Effect of dilutive potential ordinary shares	66	736
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	33,409	33,310

8. Dividends

	2010	2009
	\$'000	\$'000
Amounts paid and recognised as distributions to equity holders:		
Preference dividends of 9p per share	2,360	2,219
Ordinary dividends	2,596	1,746
Total current tax	4,956	3,965

9. Biological assets

	2010	2009
	\$'000	\$'000
Beginning of year	204,087	179,745
Reclassification of infrastructure	1,076	773
Additions to planted area and costs to maturity	15,028	13,866
Transfers from property, plant and equipment	772	140
Transfers to non-current receivables	(227)	(202)
Transfers to current receivables	(441)	-
Net biological gain	1,588	9,765
End of year	221,883	204,087
Net biological gain comprises:		
Gain arising from changes in fair value attributable to physical changes	1,588	9,765
Gain arising from changes in fair value attributable to price changes	-	-
	1,588	9,765

The valuation assumed a discount rate of 16 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim"), 17.5 per cent in the case of PT Sasana Yudha Bhakti ("SYB") and 19 per cent in the case of all other group companies (2009: 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies) and a twenty year average crude palm oil ("CPO") price of \$472 per tonne, net of Indonesian export duties, FOB Samarinda (2009: twenty year average of \$446 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

The valuation of the group's biological assets would have been reduced by \$12,560,000 (2009: \$11,260,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by \$12,000,000 (2009: \$10,660,000) if the discount rates assumed had been increased by 1 per cent and by \$25,100,000 (2009: \$22,490,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by \$5.

As a general rule, all palm products produced by the group are sold at prices prevailing immediately prior to delivery but on occasions, when market conditions appear favourable, the group makes forward sales at fixed prices. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2010, the group had no outstanding forward sale contracts at fixed prices (2009: none).

At 31 December 2010, the group had outstanding forward sales of 6,000 tonnes per month for the five month period to May 2011, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2009: 6,000 tonnes per month for the five month period to 31 May 2010).

At the balance sheet date, biological assets of \$215,700,000 (2009: \$165,364,000) had been charged as security for bank loans (see note 22) but there were otherwise no restrictions on titles to the biological assets (2009: none). Expenditure approved by the directors for the development of immature areas in 2011 amounts to \$33,000,000 (2009: \$37,000,000).

10. Capital expenditure on property, plant and equipment and capital commitments

During the year, there were additions to property, plant and equipment of \$19,276,000 (2009: \$13,690,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$1,367,000 (2009: \$360,000).

11. Issuance of equity securities

Changes in share capital:

- on 1 February 2010, 840,689 ordinary shares were issued fully paid on exercise of a director's option at 43.753p per ordinary share.
- on 8 June 2010, the authorised share capital of the company was increased from £27,750,000 to £37,750,000 by the creation of 10,000,000 new 9 per cent cumulative preference shares.
- on 24 September 2010, 1,670,727 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.
- on 29 October 2010, 9,000,000 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at par.

12. Movement in net borrowings

	2010 \$'000	2009 \$'000
Change in net borrowings resulting from cash flows:		
Increase/(decrease) in cash and cash equivalents	14,478	(9,406)
Net (increase)/decrease in borrowings	(10,243)	2,698
	<hr/>	<hr/>
	4,235	(6,708)
Issue of US dollar notes issue less amortised expenses	(13,579)	(88)
Sterling note reconstruction expenses less amortisation	(104)	(256)
Proceeds of issue of preference shares by a subsidiary	(1,500)	-
Lease repayments	64	54
	<hr/>	<hr/>
	(10,884)	(6,998)
Currency translation differences	1,981	(5,296)
Net borrowings at beginning of year	(74,875)	(62,581)
	<hr/>	<hr/>
Net borrowings at end of year	(83,778)	(74,875)
	<hr/>	<hr/>

13. Related parties

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

	2010	2009
	\$'000	\$'000
Short term benefits	1,128	877
Post employment benefits	-	48
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
	<hr/> 1,128	<hr/> 925

14. Events after the reporting period

Dividends

A second interim dividend of 2½p per ordinary share in respect of the year ended 31 December 2010 was paid on 28 January 2011. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to \$1,323,550, has not been reflected in these financial statements.

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