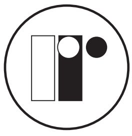

R.E.A. HOLDINGS PLC

Half yearly report

2019

R.E.A. Holdings plc (“REA”) is a UK company of which the shares are admitted to the Official List and to trading on the main market of the London Stock Exchange.

The REA group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil (“CPO”) and crude palm kernel oil (“CPKO”).

Main picture:	REA mature estate on south side of Belayan river
Upper right picture:	FFB deliveries at Cakra oil mill
Bottom right picture:	Bornean Orangutan (*Pongo pygmaeus morio*) photographed by the conservation department in the Cakra estate conservation reserve, in August 2019

Key statistics

	6 months to 30 June 2019	6 months to 30 June 2018
Results ($'000)		
Revenue	56,584	48,170
Earnings before interest, tax, depreciation and amortisation	(110)	10,947
(Loss) / profit before tax	(29,496)	1,336
Loss for the period	(24,452)	(635)
Loss attributable to ordinary shareholders	(23,267)	(4,514)
Cash generated by operations	5,278	9,565
Loss per share (US cents)	(57.4)	(11.1)
Average exchange rates		
Indonesian rupiah to US dollar	14,229	13,813
US dollar to pound sterling	1.29	1.37
FFB crops (tonnes) *		
Group	335,177	324,955
Third party	94,680	80,463
Total	429,857	405,418
Production (tonnes) *		
FFB processed	421,527	393,382
FFB sold	7,440	9,548
CPO	96,514	89,638
Palm kernels	18,882	18,649
CPKO	5,547	7,456
Extraction rates (percentage)		
CPO	22.9	22.8
Palm kernel	4.5	4.7
CPKO	39.9	40.3

* 2018 crops and production include PT Putra Bongan Jaya ("PBJ") (FFB crop 4,146 tonnes; FFB sold 3,045 tonnes) which was disposed of on 31 August 2018.

References to group companies in this report are as defined under the map on page 3.

The terms "FFB", "CPO" and "CPKO" mean, respectively, "fresh fruit bunches", "crude palm oil" and "crude palm kernel oil".

References to "dollars" and "$" are to the lawful currency of the United States of America.

References to "rupiah" are to the lawful currency of Indonesia.

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Overview

Despite continuing good production, the financial results for the six months to 30 June 2019 were severely depressed by weak CPO and CPKO prices. With FFB production for the full year expected to be at record levels for the second year running, recent cost reduction initiatives and CPO prices rising as surplus stocks are absorbed globally, results for the second half of 2019 should show a material improvement.

Highlights

Financial

- Average selling prices (FOB Samarinda) 22 per cent lower for CPO at $430 per tonne (2018: $549 per tonne) and 40 per cent lower for CPKO at $590 per tonne (2018: $977 per tonne)
- Revenue up 17 per cent to $56.6 million (2018: $48.2 million), reflecting in part the sale of excess inventory carried forward at the end of 2018 – had prices remained at 2018 levels, revenue would have been $72.5 million in the first half
- Underlying operating costs in the first half of 2019 in line with 2018, although cost of sales of $63.2 million (2018: $42.8 million) distorted by stock movements, reflecting the temporary stock build up due to logistical problems in the comparative period in 2018
- Pre-tax loss of $29.5 million (2018: profit of $1.3 million), due to the impact of depressed CPO and CPKO prices exacerbated by the strengthening of the Indonesian rupiah against the dollar, which resulted in a negative $16.0 million foreign exchange swing

Agricultural operations

- FFB production increased 3 per cent to 335,177 tonnes (2018: 324,955 tonnes) in the period
- Increase in third party FFB purchased to 94,680 tonnes (2018: 80,463 tonnes)
- CPO extraction rates consistent in the first half of the year averaging 22.9 per cent (2018: 22.8 per cent)
- Capital expenditure focused on mill works and maintaining existing plantings

Coal operations

- Good progress as IPA expects to recommence mining at its Kota Bangun concession in the near future by appointing a contractor who will also manage the port facility
- The contractor will fund all further expenditure required for infrastructure, land compensation and mobilisation in exchange for a participation in the profits from the mine

Outlook

- CPO prices expected to increase further as global demand for vegetable oils increasingly outstrips supply
- Resumption of planting of the group's undeveloped land bank remains on hold pending a sustained recovery in the CPO price and a stronger financial performance
- Recent cost reduction and improved efficiency measures, including workforce reductions, across the operations and support departments, expected to achieve some savings in the second half of 2019 notwithstanding associated one-off costs and, additionally, savings of not less than $10 million per annum from 2020 onwards

Map

The map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.

Key	
M	Methane capture plant
	Oil mill
	Stone source
	Coal concession
	Tank storage

Companies		
	CDM	PT Cipta Davia Mandiri
	KKS	PT Kartanegara Kumalasakti
	KMS	PT Kutai Mitra Sejahtera
	PBJ2	PT Persada Bangun Jaya
	REAK	PT REA Kaltim Plantations
	SYB	PT Sasana Yudha Bhakti
	PU	PT Prasetia Utama
	SYB	SYB land transfer

Interim management report

Results

Key components of the income statement for the six months to 30 June 2019, with comparative figures for 2018, were as follows:

	6 months to 30 June 2019	6 months to 30 June 2018	Year to 31 December 2018
	$	$	$
Average selling prices:			
CPO	430	549	472
CPKO	590	977	1,067
	$'m	$'m	$'m
Revenue	56.6	48.2	105.5
Operating loss	(13.7)	(0.3)	(10.7)
(Loss)/profit before tax	(29.5)	1.3	(5.5)

The six month period to 30 June 2019 was a particularly challenging period for the group. Poor CPO and CPKO prices meant that revenues were some $15.9 million lower than they would have been had prices been at the same levels (themselves depressed) as in the corresponding period of 2018. In addition, strengthening of the Indonesian rupiah against the dollar resulted in a $16.0 million negative swing in the effect of foreign exchange on the income statement (made up of a loss of $4.9 million in the period to 30 June 2019 against a profit of $11.1 million in the comparative period).

As discussed below, the directors expect that the first six months of 2019 will represent the nadir of the group's fortunes. Crops are usually weighted to the second half of each year so that, other things being equal, results for the full year should reflect the benefit of better revenues in the second half without proportionately additional costs. Moreover, revenues going forward will be helped by recent increases in CPO and CPKO prices, while cost reduction initiatives are already having a positive impact and will result in material savings from 2020 onwards.

Earnings before interest, depreciation, amortisation and tax amounted to a loss of $0.1 million for the six months to 30 June 2019 (2018: profit of $10.9 million).

Specific components of the results

Cost of sales for the six months to 30 June 2019, with comparative figures for 2018, was made up as follows:

	6 months to 30 June 2019 $'m	6 months to 30 June 2018 $'m	Year to 31 December 2018 $'m
Depreciation and amortisation	13.6	11.3	23.0
Purchase of external FFB	8.2	8.9	18.4
Stock movement at historic cost	8.8	(8.4)	(10.2)
Estate operating costs	32.6	31.0	68.4
	63.2	42.8	99.6

Whilst cost of sales at $63.2 million showed a substantial increase on the preceding year ($42.8 million), the major part of the increase was accounted for by changes in stock levels. These reflected the build up of stocks that occurred during 2018 (the result of logistical problems in transferring stocks from the estates downriver to Samarinda and Balikpapan) followed by a reduction in stocks to more normal levels during the early months of 2019. When increases in volumes are taken into account, actual operating costs were in line with those of the comparative period.

Purchases of third party FFB increased by some 18 per cent, but the see-through effect of lower CPO and CPKO prices on FFB pricing meant that the overall cost of external FFB at $8.2 million was lower than the $8.9 million incurred in the comparative period.

Administrative expenses charged in the income statement amounted to $8.4 million against the $6.8 million charged in 2018. Substantially all of the increase reflected a lower rate of capitalisation, PBJ having been disposed of in the prior period. Before capitalisation, administrative expenses amounted to $9.6 million against $9.5 million in the comparative period.

As noted above, strengthening of the Indonesian rupiah against the dollar in the six months to 30 June 2019 resulted in mark to market losses on rupiah balances of $4.9 million against a gain in the comparative period of $11.1 million. These and other exchange differences (principally arising from movement in sterling against the dollar) have been reported within finance costs. Other finance costs, comprising interest and other finance charges, amounted, before capitalisation, to $11.2 million for the period to 30 June 2019, slightly lower than the $11.8 reported in 2018.

The tax credit of $5.0 million (2018: charge of $2.0 million) has been stated after providing $0.4 million (2018: $0.9 million) against deferred tax credits previously recorded against losses which may not now be capable of use prior to time expiry.

Dividends

It was announced on 5 June 2019, that the directors had concluded that the half yearly payment of dividend on the group's preference shares that was due on 30 June 2019 should be deferred pending an improvement in CPO prices. Since then, prices have improved and, as noted under "Results" above, this improvement, combined with the benefit of the normal weighting of crops to the second half of the year, should mean that results for the six months to June 2019 are not representative of the likely outturn for 2019 as a whole. However, the directors are conscious of the fact that very substantial losses were incurred in the first half of the year and, for that reason, now expect that, not only will the 30 June dividend have to continue to be deferred, but that it will also be necessary to defer payment of the dividend falling due on 31 December 2019.

The directors recognise the importance of dividends to holders of preference shares. Once it has become clear that the recovery in CPO prices will continue and can reasonably be expected to be sustained, the directors plan to submit proposals to preference shareholders to deal with the arrears of preference dividend and to resume payment of cash dividends.

In view of the financial performance of the group in 2019 to date, the directors do not intend to declare or recommend the payment of any ordinary dividends in respect of 2019.

Agricultural operations

Key agricultural statistics were as follows:

	6 months to 30 June 2019	6 months to 30 June 2018
FFB crops (tonnes) *		
Group	335,177	324,955
Third party	94,680	80,463
Total	429,857	405,418
Production (tonnes) *		
Total FFB processed	421,527	393,382
FFB sold	7,440	9,548
CPO	96,514	89,638
Palm kernels	18,882	18,649
CPKO	5,547	7,456
Extraction rates (percentage)		
CPO	22.9	22.8
Palm kernel	4.5	4.7
CPKO	39.9	40.3
Rainfall (mm)		
Average across the estates	2,039	1,673

* 2018 crops and production include PBJ (FFB crop 4,146 tonnes; FFB sold 3,045 tonnes) which was disposed of on 31 August 2018.

With greater consistency in field disciplines and supervision, the production recovery seen in 2018 continued into the first half of 2019. Some harvesting days were lost during the festive holiday period in June, but production has subsequently picked up with FFB harvested in the eight months to August 2019 totalling 493,651 tonnes (2018: 494,932 tonnes, including 5,782 tonnes from PBJ which was disposed of on 31 August 2018). Bunch counts indicate good crop availability through to the end of 2019, but an industry wide decline in production as palms enter a resting phase following the bountiful cropping in 2018 means that the group's FFB production in 2019, albeit at record levels for the second consecutive year, may fall short of the original target of 900,000 tonnes.

Maintenance work in the mills led to a temporary reduction in CPKO production in the first half of 2019 with some palm kernels being sold uncrushed to third party processors. Full CPKO production capacity is being restored. Extraction rates are generally being maintained and targeted improvements are being achieved as major mill works are completed.

As noted under "Results" above, the positive impact of a good operational performance in the first half of 2019 was dampened by persistently low CPO prices. Having fallen by some 17 per cent in 2018 to reach a 10 year low of $439 per tonne, CIF Rotterdam, in November 2018, prices appeared to be on the road to recovery at the start of 2019. This recovery then stalled, with prices falling again to $501 per tonne at the end of June 2019 and continuing to a low for the year to date of $480 per tonne in mid July. The widely anticipated increase in the supply deficit then started to manifest itself in a much needed price recovery during August and the CPO price now stands at $570 per tonne.

CPKO prices have been more fickle, increasing from $770 per tonne, CIF Rotterdam, at the start of 2019 to reach a high of $818 per tonne in mid January before falling to a 12 year low of $529 per tonne in early June. The average premium over CPO was unusually low during the first half of 2019, at less than $50 per tonne reflecting subdued demand generally and good availability of the competitor coconut oil. Prices are now a little stronger, currently standing at $625 per tonne.

The average selling price for the group's CPO for the six months to the end of June 2019, on an FOB basis at the port of Samarinda, net of export levy and duty, was $430 per tonne (2018: $549 per tonne). The average selling price for the group's CPKO, on the same basis, was $590 per tonne (2018: $977 per tonne).

Against this background, the group has been taking steps to conserve cash by limiting capital expenditure and reducing costs. Accordingly, capital expenditure in 2019 is directed almost entirely at maintaining immature plantings planted in earlier years and completing works to ensure resilience and

availability of sufficient capacity in the group's mills. Resumption of planting of the group's undeveloped land bank remains on hold pending a sustained recovery in the CPO price and a stronger financial performance.

Measures initiated during the first half of 2019 to maximise efficiencies and reduce costs, without compromising operational performance, are continuing as planned. Such measures have been to an extent facilitated by the concentration of estate operations in one locality following the sale in 2018 of PBJ and by the lower staffing that deferral of the group's expansion programme permits. Various operational economies are being implemented, including the gradual reduction in the number of temporary workers employed for remedial upkeep as the work undertaken by these workers is progressively completed. The regional office in Singapore has been closed and administrative and support departments in Indonesia are also being slimmed down.

Coal and stone operations

As previously indicated, to the extent that any further capital is to be committed to its coal and stone interests, the group is giving priority to investment that will offer quicker returns with lower risk. To this end, the group's recent concentration has been on recovering amounts already invested by way of loans in the Kota Bangun coal concession company, PT Indo Pancadasa Agrotama ("IPA") which is owned by the group's local partners.

Good progress has been made and the company has been informed that IPA will be recommencing mining of the concession by appointing a contractor to, amongst others, provide mining services and to manage the port facility adjacent to the concession. To minimise the requirement for further funding, it has been agreed that the contractor will fund all further expenditure needed on infrastructure, land compensation and mobilisation in exchange for a participation in profits from the mine. The extent of the participation will be dependent upon prevailing coal prices but is expected to average 30 per cent.

It is hoped that the reopening of the port facility for evacuation of IPA's own coal production will encourage adjacent third party mining companies to utilise the port facility. This could provide useful revenues to IPA additional to its profits from mining.

The Indonesian government has recently announced plans to establish a new Indonesian Capital City on a site in East Kalimantan lying between Balikpapan and Samarinda. Whilst this will be a long term project, the civil works involved are likely to require large quantities of crushed stone. Although development of the andesite stone concession has been viewed by the group as a lower priority than development of the IPA concession, efforts have continued to seek interest from contractors in commencing quarrying operations on the concession. It is hoped that the prospect of much greater local demand for crushed stone will facilitate a successful conclusion to these efforts.

Sustainability

The RSPO annual surveillance audits for the group's two older mills, the bulking station and supply bases have again successfully concluded in 2019. In each case there was a significant reduction in the number of issues raised at the commencement of the audit and subsequently addressed as compared with previous years.

Work to evaluate the outstanding High Conservation Value ("HCV") compensation liability in respect of a small area of some 20 hectares in the SYB northern estate has been completed. The results of the independent third-party analysis to assist in determining the final compensation liability were submitted to the RSPO in May 2019. Feedback is now awaited.

There is a further RSPO review outstanding in respect of historic land clearing of an area in the SYB southern estate. The company submitted the results of its HCV analysis earlier in 2019 and, pending the outcome of the review, has excluded this estate from supplying the Perdana oil mill so that certification of the mill can be retained.

The response from RSPO in respect of the compensation plan for CDM remains outstanding, although the group's proposal has been agreed in principle.

In April 2019, the group retained its certification under the recently updated international standard for environmental management systems, ISO 14001:2015. This covers the mills and estates of REAK and SYB as well as the group's bulking station. Certification is valid for three years.

Following 2018 surveys among smallholder oil palm farmers in the vicinity of the group's estate, the in-house team dealing with local communities is now focusing on methods to improve the productivity and fruit quality of these farmers. This includes further surveys to assess whether villagers would be interested in business development and diversification, so that they can become more resilient and less dependent on oil palm cultivation. In addition, this exercise is designed to assess demands for produce by the villages, as well as by the company, its employees and families, and to establish how best these demands can be met, given the remote location.

The conservation department has now fully implemented its long-held plan to map the locations of endangered species, such as orangutans, within the group's estate boundaries, based on GPS records of individual animals photographed by camera traps set throughout the group's forested conservation reserves. During the first half of 2019, the population of orangutans and other species were monitored by cameras at 111 sites in the conservation areas of the estates. Bird surveys and herpetology transect walks were also conducted throughout this period.

The bi-weekly updates from the Satelligence system that is being used to monitor the status of forest cover and land clearing activities within and around the group's estates is soon to be upgraded to an online platform that will be readily accessible by the group's conservation and survey department. This will facilitate rapid investigation of illegal activity that may be damaging to the environment.

Financing

At 30 June 2019, the group continued to be financed by a combination of debt and equity (comprising ordinary and preference share capital). There was a decrease in total equity including non-controlling interests to $236.8 million from $261.3 million at 31 December 2018.

Group indebtedness and related engagements at 30 June 2019 totalled $218.9 million against $215.8 million at 31 December 2018. Against this indebtedness, the group held cash and cash equivalents of $9.9 million (31 December 2018: $26.3 million). The composition of the resultant net indebtedness of $209.0 million was as follows:

	$'m
7.5 per cent dollar notes 2022 ("2022 dollar notes") ($24.0 million nominal)	23.8
8.75 per cent guaranteed sterling notes 2020 ("2020 sterling notes") (£31.9 million nominal)	38.7
Loan from related party	3.7
Loans from non-controlling shareholder	23.2
Indonesian term bank loans	124.6
Drawings under working capital lines	4.9
	218.9
Cash and cash equivalents	(9.9)
Net indebtedness	209.0

The group's annual strategic report noted that the group was in discussions with its Indonesian bankers regarding the provision of an additional loan of $11.0 million to fund 2019 capital expenditure on the group's mills and, in effect, refinance bank loan repayments falling due in 2019. Unfortunately, these discussions had to be temporarily suspended pending receipt by the bank of the 2018 audited accounts of REAK and its subsidiaries, which REAK has only very recently been able to submit to the bank. This is because the unexpected dissolution of the group's former Indonesian audit firm and transfer of the REAK audit to a successor firm significantly delayed completion of the audit of the accounts in question. Discussions with the bank regarding the group's future funding are now being resumed.

In the meanwhile, the group has been engaged in discussions with its customers regarding the provision of funding in exchange for forward commitments of CPO and CPKO (but on a basis that pricing will be fixed at time of delivery on an agreed basis by reference to then prevailing prices). Supply arrangements recently agreed with one customer will result in that customer subscribing for $3 million of new 2022 dollar notes for a total consideration of $3 million in cash reflecting the value of the notes, the value of the CPO supply arrangements agreed by the group and an agreement by the company to repurchase the notes should the supply arrangements terminate. It is expected that formal agreements in relation to these arrangements will be executed, and that the new dollar notes will be issued, before 31 October 2019. Discussions regarding arrangements for other customer funding are continuing.

Once the customer funding arrangements referred to above have been concluded, the group intends to formulate proposals for the refinancing of the £31.9 million nominal of sterling notes 2020 which fall due for repayment in August 2020. Provided that CPO prices continue to recover, the group also plans, as noted under "Dividends" above, to submit proposals to preference shareholders to deal with the arrears of preference dividend and to resume payment of cash dividends.

The group recognises that implementation of the above proposed transactions will require additional equity.

Outlook

The rate of growth in demand for vegetable oils is now exceeding the rate of growth in supply. This situation is expected to continue with increasing use of bio-diesel in vegetable oil producing countries, a number of different factors limiting supplies of the principal vegetable oils and, in particular, as respects palm oil, increasing constraints on the expansion of oil palm hectarage as a result of sustainability concerns. CPO stocks are being absorbed and this is already being reflected in an improvement in the CPO price. The group agrees with the view of professional commentators that CPO prices are likely to go higher.

The cost reduction initiatives referred to under "Agricultural operations" above are expected to result in some savings in

the second half of 2019, but those savings will be limited as the initiatives are being implemented over a period of several months and, in some cases, result in immediate one off costs. Nevertheless, those savings that are achieved, combined with the normal weighting of annual crops to the second half and the higher CPO prices currently prevailing, are expected to result in a material improvement in the results reported by the group for the second half, subject to CPO prices remaining at current levels for the remainder of 2019.

For 2020 and subsequent years, the group is aiming to achieve savings, when measured against 2019 budgeted costs, of not less than $10 million per annum.

With good crop levels and yields being maintained, some potential for further improvements to extraction rates and the impact of increased prices on a lower cost base, the directors look forward to the group's return to profitability.

Approved by the board on 19 September 2019 and signed on its behalf by

DAVID J BLACKETT
Chairman

Risks and uncertainties

The principal risks and uncertainties, as well as mitigating and other relevant considerations, affecting the business activities of the group as at the date of publication of the 2018 annual report (the "annual report") were set out on pages 35 to 41 of that report, under the heading "Risks and uncertainties". A copy of the report may be downloaded from the company's website at www.rea.co.uk. Such risks and uncertainties in summary comprise:

Agricultural operations	
Climatic factors	Material variations from the norm
Cultivation risks	Impact of pests and diseases
Other operational factors	Logistical disruptions to the production cycle, including transportation and input shortages or cost increases
Produce prices	Consequences of lower realisations from sales of CPO and CPKO
Expansion	Delays in securing land or funding for the extension planting programme
Environmental, social and government practices	Failure to meet expected standards
Community relations	Disruptions arising from issues with local stakeholders
Coal and stone operations	
Operational factors	Failure by external contractors to achieve agreed targets
Prices	Consequences of lower coal or stone prices
Environmental, social and government practices	Failure to meet expected standards
General	
Currency risk	Adverse exchange movements between sterling or the rupiah and the dollar
Funding	Meeting liabilities as they fall due in periods of weaker produce prices
Counterparty risk	Default by suppliers, customers or financial institutions
Regulatory and country exposure	Failure to meet or comply with expected standards or applicable regulations; adverse political or legislative changes in Indonesia
Systems access and controls	Weakness in IT controls and financial reporting system

The risks as relating to "Agricultural operations –Expansion" and "Coal and stone operations" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and not yet mining its coal and stone concessions. However, such risks will apply when, as is contemplated, expansion and mining are resumed. The effect of an adverse incident relating to the coal and stone operations could impact the ability of the coal and stone companies to repay their loans.

The directors have carefully reviewed the potential impact on its operations of the various possible outcomes 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 though 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, the percentage of which could be expected to increase. 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.

Risks and uncertainties

continued

At the date of the annual report, risks assessed by the directors as being of particular significance were those as detailed 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” in the “Directors’ report” on page 43 of the annual report and, as respects climatic and other factors, the negative impact that could result from adverse incidence of such risks.

The directors consider that the principal risks and uncertainties for the second six months of 2019 continue to be those set out in the annual report as summarised above.

Going concern

In the statements regarding viability and going concern on pages 43 and 44 of the 2018 annual report, the directors set out considerations with respect to the group's capital structure and their assessment of liquidity and financing adequacy.

Since publication of the 2018 annual report, CPO prices have increased (with an expectation that they will increase further) while cost reduction measures are already resulting in savings and are projected to save at least $10 million per annum from 2020 onwards. Crops have remained at good levels and care has been taken that the cost reduction measures will not impact agricultural performance. The group can therefore expect progressive improvement in its trading cash flows going forward.

The group has been conducting discussions with its principal customers. These have already resulted in an agreement by one customer to subscribe $3 million nominal of dollar notes 2022 for a total consideration of $3 million in cash reflecting the value of the notes, the value of the CPO supply arrangements agreed by the group and an agreement by the company to repurchase the notes should the supply arrangements terminate. Discussions regarding arrangements for other customer funding are continuing. Once such arrangements have been concluded, the group intends to formulate proposals for the refinancing of the £31.9 million nominal of sterling notes 2020 which fall due for repayment in August 2020.

For the reasons explained under "Financing" in the Interim management report above, REAK has only recently been able to submit 2018 audited accounts of REAK and its subsidiaries to its Indonesian bank. This has delayed discussions regarding the group's future bank funding but such discussions are now being resumed. REAK has maintained regular contact with its bank and is confident that the bank will continue to be supportive of REAK and its subsidiaries.

As noted under "Financing" in the Interim management report, the company recognises that additional equity capital may be required and has been assured of support from its largest shareholder.

Accordingly, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of twelve months from the date of approval of the accompanying financial statements and they continue to adopt the going concern basis of accounting in preparing those statements.

Directors' responsibilities

The directors are responsible for the preparation of this half yearly financial report.

The directors confirm that to the best of their knowledge:

- the accompanying condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting"

- the "Interim management report" and "Risks and uncertainties" sections of this half yearly report include a fair review of the information required by rule 4.2.7R of the Disclosure and Transparency Rules of the Financial Conduct Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

- note 19 in the notes to the consolidated financial statements includes a fair review of the information required by rule 4.2.8R of the Disclosure and Transparency Rules of the Financial Conduct Authority, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period, and any changes in the related party transactions described in the 2018 annual report that could do so.

The current directors of the company are as listed on page 42 of the company's 2018 annual report.

Approved by the board on 19 September 2019

DAVID J BLACKETT
Chairman

Consolidated income statement

for the six months ended 30 June 2019

	Note	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Revenue	2	56,584	48,170	105,479
Net gain arising from changes in fair value of agricultural produce	4	1,911	1,557	305
Cost of sales:				
Depreciation and amortisation		(13,584)	(11,281)	(23,014)
Purchase of external FFB		(8,186)	(8,945)	(18,446)
Stock movement at historic cost		(8,810)	8,416	10,243
Estate operating costs		(32,616)	(30,993)	(68,368)
Gross (loss) / profit		(4,701)	6,924	6,199
Distribution costs		(592)	(502)	(1,258)
Administrative expenses	5	(8,401)	(6,756)	(15,668)
Operating loss		(13,694)	(334)	(10,727)
Investment revenues	2	176	135	292
Profit on disposal of subsidiary		–	–	10,373
Finance costs	6	(15,978)	1,535	(5,412)
(Loss) / profit before tax		(29,496)	1,336	(5,474)
Tax	7	5,044	(1,971)	(12,734)
Loss for the period		(24,452)	(635)	(18,208)
Attributable to:				
Ordinary shareholders		(23,267)	(4,514)	(22,021)
Preference shareholders		4,124	4,260	8,353
Non-controlling interests		(5,309)	(381)	(4,540)
		(24,452)	(635)	(18,208)
Loss per 25p ordinary share (US cents)	8	(57.4)	(11.1)	(54.4)

All operations in all periods are continuing

Consolidated balance sheet

as at 30 June 2019

	Note	30 June 2019 $'000	30 June 2018 $'000	31 December 2018 $'000
Non-current assets				
Goodwill		12,578	12,578	12,578
Intangible assets	10	2,155	3,063	2,581
Property, plant and equipment	11	404,083	414,017	407,164
Land titles	12	36,206	32,848	35,890
Coal and stone interests	14	48,444	41,342	46,011
Deferred tax assets		15,669	11,116	10,088
Non-current receivables		7,564	4,354	7,544
Total non-current assets		526,699	519,318	521,856
Current assets				
Inventories		18,607	19,421	22,637
Biological assets		3,564	3,226	2,589
Trade and other receivables		44,415	36,000	50,714
Assets available for sale	15	–	56,423	–
Cash and cash equivalents		9,923	2,269	26,279
Total current assets		76,509	117,339	102,219
Total assets		603,208	636,657	624,075
Current liabilities				
Trade and other payables		(58,733)	(89,769)	(59,779)
Current tax liabilities		–	(13)	–
Bank loans		(9,652)	(27,996)	(13,966)
Other loans and payables		(5,513)	(10,239)	(718)
Total current liabilities		(73,898)	(128,017)	(74,463)
Non-current liabilities				
Bank loans		(119,821)	(64,145)	(117,008)
Sterling notes		(38,706)	(40,823)	(38,213)
Dollar notes		(23,763)	(23,686)	(23,724)
Deferred tax liabilities		(79,244)	(81,017)	(79,247)
Other loans and payables		(30,938)	(29,681)	(30,146)
Total non-current liabilities		(292,472)	(239,352)	(288,338)
Total liabilities		(366,370)	(367,369)	(362,801)
Net assets		236,838	269,288	261,274
Equity				
Share capital		132,528	132,528	132,528
Share premium account		42,401	42,401	42,401
Translation reserve		(42,470)	(56,003)	(42,470)
Retained earnings		95,233	133,717	114,360
		227,692	252,643	246,819
Non-controlling interests		9,146	16,645	14,455
Total equity		236,838	269,288	261,274

Consolidated statement of comprehensive income

for the six months ended 30 June 2019

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Loss for the period	(24,452)	(635)	(18,208)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial (losses) / gains	(105)	(219)	1,732
Deferred tax on actuarial losses / (gains)	25	55	(425)
	(80)	(164)	1,307
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	(29)	1,933	14,087
Exchange differences on deferred tax	125	(4,321)	3,110
	16	(2,388)	18,504
Total comprehensive income for the period	(24,436)	(3,187)	296
Attributable to:			
Ordinary shareholders	(23,251)	(7,066)	(3,517)
Preference shareholders	4,124	4,260	8,353
Non-controlling interests	(5,309)	(381)	(4,540)
	(24,436)	(3,187)	296

Consolidated statement of changes in equity

for the six months ended 30 June 2019

	Share capital $'000	Share premium $'000	Translation reserve $'000	Retained earnings $'000	Subtotal $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2018	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735
Total comprehensive income	–	–	(5,106)	2,903	(2,203)	(984)	(3,187)
Dividends to preference shareholders	–	–	–	(4,260)	(4,260)	–	(4,260)
At 30 June 2018	132,528	42,401	(56,003)	133,717	252,643	16,645	269,288
Total comprehensive income	–	–	20,937	(15,264)	5,673	(2,190)	3,483
Disposal of subsidiary	–	–	(7,404)	–	(7,404)	–	(7,404)
Dividends to preference shareholders	–	–	–	(4,093)	(4,093)	–	(4,093)
At 31 December 2018	132,528	42,401	(42,470)	114,360	246,819	14,455	261,274
Total comprehensive income	–	–	–	(19,127)	(19,127)	(5,309)	(24,436)
At 30 June 2019	132,528	42,401	(42,470)	95,233	227,692	9,146	236,838

Consolidated cash flow statement

for the six months ended 30 June 2019

	Note	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Net cash (used in) / from operating activities	17	(5,545)	2,381	(26,861)
Investing activities				
Interest received		176	135	94
Purchases of property, plant and equipment		(7,651)	(13,959)	(23,793)
Purchases of intangible assets		–	–	(33)
Expenditure on land titles		(316)	–	(1,005)
Investment in coal and stone interests		(2,433)	(3,595)	(5,593)
Proceeds of disposal of subsidiary		–	–	2,793
Net cash used in investing activities		(10,224)	(17,419)	(27,537)
Financing activities				
Preference dividends paid		–	(4,260)	(8,353)
Repayment of bank borrowings		(4,649)	(7,933)	(105,768)
New bank borrowings drawn		–	4,973	119,847
New borrowings from related party		3,750	8,227	13,440
Repayment of borrowings from related party		–	–	(13,440)
Repayment of borrowings from non-controlling shareholder		–	–	(6,469)
New borrowings from non-controlling shareholder		300	–	–
Redemption of 2020 sterling notes		–	–	(1,307)
Proceeds of sale of investments		–	2,730	2,730
Deposit received relating to sale of subsidiary		–	8,000	–
Repayment of balances from divested subsidiary		–	–	50,027
Settlement of bank loan by purchaser of subsidiary		–	–	24,748
Net cash from financing activities		(599)	11,737	75,455
Cash and cash equivalents				
Net (decrease) / increase in cash and cash equivalents		(16,368)	(3,301)	21,057
Cash and cash equivalents at beginning of period		26,279	5,543	5,543
Effect of exchange rate changes		12	27	(321)
Cash and cash equivalents at end of period		9,923	2,269	26,279

Notes to the consolidated financial statements

1. Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2019 comprise the unaudited financial statements for the six months ended 30 June 2019 and 30 June 2018, neither of which has been reviewed by the company's auditor, together with audited financial statements for the year ended 31 December 2018.

The information shown for the year ended 31 December 2018 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006, and is an abridged version of the group's published financial statements for that year which have been filed with the Registrar of Companies. The auditor's report on those statements was unqualified and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Adoption of new accounting standards: IFRS 16

During the year the Group has adopted IFRS 16: Leases with a date of initial application of 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments.

As permitted by the transitional provisions of IFRS 16 the group has elected to use the modified retrospective approach, and as such has not restated prior year comparatives.

The adjustments arising from transition are recognised in the opening balance sheet on 1 January 2019, and are set out below along with details of the changes in accounting policies relating to IFRS 16 as applied in the period.

a) Definition of a lease and practical expedients applied

Previously, the group determined at the beginning of a contract whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The group now assesses whether a contract is or contains a lease based on the new definition of a lease, which under IFRS 16 is where a contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

b) Impact of transition

On adoption of IFRS 16, the group recognised additional right-of-use assets, and additional lease liabilities in relation to leases which were previously classified as 'operating leases' under IAS 17: Leases. The liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate (discount rate) applied is 9.9%.

A reconciliation of the group's lease liabilities to the operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements is shown below.

	$'000
Operating lease commitments disclosed as at 31 December 2018	1,911
Impact of changes in relation to IFRS 16 treatment	762
Adjusted operating lease commitments under IFRS 16	2,673
Impact of discount at the date of initial application	(247)
Lease liability recognised at 1 January 2019	2,426

Current	1,677
Non-current	749
	2,426

During the six months ended 30 June 2019, in relation to leases under IFRS 16 the group recognised the following amounts in the consolidated income statement:

	$'000
Depreciation	1,047
Interest expense	91

c) Accounting Policies

The group leases barges for the transportation of palm oil, and also leases office properties. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Land titles are not treated as leases, but as in-substance fixed assets, with no depreciation.

Under IAS 17, all group leases were classified as operating leases. Operating lease payments, including the effects of any lease incentives, were recognised in the income statement on a straight-line basis over the lease term.

From 1 January 2019, for each lease a right-of-use asset and corresponding lease liability are recognised at the date at which the leased asset becomes available for use by the group.

The lease liability is initially measured at the present value of remaining lease payments, which include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group's incremental borrowing rate is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment, with similar terms and conditions. Generally, the group uses its incremental borrowing rate as the discount rate.

Subsequently, lease payments are allocated to the lease liability, split between repayments of principal and interest. A finance cost is charged to the profit and loss so as to produce a constant period rate of interest on the remaining balance of the lease liability.

The right-of-use asset is measured at cost, which comprises the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the lease term and the asset's useful life on a straight-line basis.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those set out in the group's annual report for 2018.

For the reasons given under "Going concern" above, the financial statements have been prepared on the going concern basis.

The condensed consolidated financial statements for the six months ended 30 June 2019 were approved by the board of directors on 19 September 2019.

2. Revenue

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Sales of goods	56,217	47,516	105,297
Revenue from services	367	654	182
	56,584	48,170	105,479
Investment revenue	176	135	292
Total revenue	56,760	48,305	105,771

3. Segment information

The group continues to operate in two segments, being the cultivation of oil palms and the coal and stone operations. In the period ended 30 June 2019, the relevant measures for the coal and stone operations continued to fall below the quantitative thresholds set out in IFRS 8. Accordingly, no segment information is included in these financial statements.

4. Agricultural produce movement

The net gain arising from changes in fair value of agricultural produce 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), together with movements in the value of current biological assets, which represents growing produce on oil palm trees.

5. Administrative expenses

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Loss on disposal of property, plant and equipment	–	207	10
Indonesian operations	6,220	5,923	14,728
Head office	3,417	3,326	5,696
	9,637	9,456	20,434
Amount included as additions to fixed assets	(1,236)	(2,700)	(4,766)
	8,401	6,756	15,668

Earnings before interest, tax depreciation and amortisation ("EBITDA") is calculated to show the effect on the group's operating loss of excluding depreciation and amortisation, which are significant non-cash movements.

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Earnings before interest, tax, depreciation and amortisation:			
Operating loss	(13,694)	(334)	(10,727)
Depreciation and amortisation	13,584	11,281	23,014
	(110)	10,947	12,287

6. Finance costs

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Interest on bank loans and overdrafts	7,375	7,107	15,485
Interest on dollar notes	901	901	1,877
Interest on sterling notes	1,717	1,832	4,085
Interest on other loans	554	1,317	2,549
Interest on lease liabilities	91	–	–
Other finance charges	567	694	1,022
	11,205	11,851	25,018
Change in value of sterling notes arising from exchange fluctuations	123	740	(2,297)
Change in value of bank loans and other items arising from exchange fluctuations	4,927	(11,142)	(12,547)
	16,255	1,449	10,174
Amount included as additions to property, plant and equipment	(277)	(2,984)	(4,762)
	15,978	(1,535)	5,412

7. Tax

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Current tax:			
UK corporation tax	–	–	–
Overseas withholding tax	536	638	1,552
Foreign tax	6	7	9
Total current tax	542	645	1,561
Deferred tax:			
Current year	(5,940)	449	10,628
Prior year	354	877	545
Total deferred tax	(5,586)	1,326	11,173
Total tax (credit) / charge	(5,044)	1,971	12,734

The tax credit for the period of $5.0 million (30 June 2018: charge of $2.0 million) is based on the reported results of the operations in each jurisdiction, using relevant rates of tax, adjusted for items which include non-taxable income/expense, prior year reduction in the carrying value of Indonesian tax losses and Indonesian withholding taxes not utilisable in the UK. If the income mix in the second half of 2019 differs materially from that of the first half, it may result in a disproportionate movement in the effective rate of taxation for the full year.

8. Loss per share

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Loss for the purpose of calculating loss per share*	(23,267)	(4,514)	(22,021)

* being net loss attributable to ordinary shareholders

	'000	'000	'000
Weighted average number of ordinary shares for the purpose of loss per share	40,510	40,510	40,510

9. Dividends

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Amounts recognised as distributions to equity holders:			
Preference dividends of 9p per share per annum (2018: 9p per share)	–	4,260	8,353
	–	4,260	8,353

The half yearly payment of the dividend on the group's preference shares due on 30 June 2019 ($4.1 million) has been deferred pending an improvement in CPO prices. The directors now expect that, not only will the 30 June dividend have to continue to be deferred, but that it will also be necessary to defer payment of the dividend falling due on 31 December 2019. Once it has become clear that the recovery in CPO prices will continue and can reasonably be expected to be sustained, the directors plan to submit proposals to preference shareholders to deal with the arrears of preference dividend and to resume payment of cash dividends.

10. Intangible assets

	30 June 2019 $'000	30 June 2018 $'000	31 December 2018 $'000
Cost:			
Beginning of period	5,410	5,377	5,377
Additions	–	–	33
End of period	5,410	5,377	5,410
Depreciation:			
Beginning of period	2,829	1,900	1,900
Additions	426	414	929
End of period	3,255	2,314	2,829
Carrying amount:			
Beginning of period	2,581	3,477	3,477
End of period	2,155	3,063	2,581

Computer software and proprietary technology that are not integral to an item of property, plant and equipment are recognised separately as intangible assets.

11. Property, plant and equipment

	Plantings	Buildings and structures	Plant, equipment 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	5,217	6,190	830	1,611	13,848
Transfers to / (from) construction in progress	–	59	–	(59)	–
Disposals	–	–	(482)	–	(482)
Transferred to assets available for sale	(25,650)	(43,181)	(1,731)	(1,437)	(71,999)
At 30 June 2018	180,936	237,708	111,366	5,191	535,201
Additions	2,400	6,038	1,715	4,554	14,707
Disposals - property, plant and equipment	–	(6,000)	224	–	(5,776)
Transferred from assets available for sale	25,650	43,181	1,731	1,437	71,999
Disposal of subsidiary	(26,437)	(47,075)	(1,730)	(1,487)	(76,729)
Transfers to / (from) construction in progress	–	2,435	18	(2,453)	–
At 31 December 2018	182,549	236,287	113,324	7,242	539,402
Right-of-use assets opening balance adjustment (see note 1)	–	666	1,760	–	2,426
Additions	2,340	172	503	4,636	7,651
Transfers to / (from) construction in progress	–	–	2,109	(2,109)	–
At 30 June 2019	184,889	237,125	117,696	9,769	549,479
Accumulated depreciation:					
At 1 January 2018	26,961	32,379	52,153	–	111,493
Charge	4,947	2,811	3,109	–	10,867
Disposals - property, plant and equipment	–	–	(274)	–	(274)
Transferred to assets available for sale	(257)	(209)	(436)	–	(902)
At 30 June 2018	31,651	34,981	54,552	–	121,184
Charge	4,914	2,840	3,390	–	11,144
Disposals - property, plant and equipment	–	–	25	–	25
Transferred from assets available for sale	257	209	436	–	902
Disposal of subsidiary	(257)	(209)	(551)	–	(1,017)
At 31 December 2018	36,565	37,821	57,852	–	132,238
Charge	4,917	3,360	4,881	–	13,158
At 30 June 2019	41,482	41,181	62,733	–	145,396
Carrying amount:					
At 30 June 2019	143,407	195,944	54,963	9,769	404,083
At 31 December 2018	145,984	198,466	55,472	7,242	407,164
At 30 June 2018	149,285	202,727	56,814	5,191	414,017

Additions during the period to property, plant and equipment amounted to $7.7 million (year to 31 December 2018: $28.6 million, six months to 30 June 2018: $13.8 million).

Disposals during the period of property, plant and equipment amounted to $nil (2018: $0.5 million) and gave rise to a loss on disposal of $nil (2018: $0.2 million).

Leased assets that do not meet the definitions of planting, buildings and structures, or construction in progress have been classed among plant, equipment and vehicles.

12. Land titles

	30 June 2019 $'000	30 June 2018 $'000	31 December 2018 $'000
Cost:			
Beginning of period	40,271	39,851	39,851
Additions	316	111	9,605
Disposal	–	–	(2,600)
Disposal of subsidiary	–	(2,733)	(6,585)
End of period	40,587	37,229	40,271
Amortisation:			
Beginning of period	4,381	4,673	4,673
Disposal of subsidiary	–	(292)	(292)
End of period	4,381	4,381	4,381
Carrying amount:			
Beginning of period	35,890	35,178	35,178
End of period	36,206	32,848	35,890

13. Capital commitments

Capital commitments contracted, but not provided for by the group as at 30 June 2019, amounted to $4.4 million (31 December 2018: $1.1 million, 30 June 2018: $4.5 million).

14. Coal and stone interests

	30 June 2019 $'000	30 June 2018 $'000	31 December 2018 $'000
Coal companies	29,248	24,031	27,291
Stone company	22,196	20,311	21,720
Provision against loans to coal companies	(3,000)	(3,000)	(3,000)
	48,444	41,342	46,011

Interest bearing loans have been made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain coal and stone concessions in East Kalimantan, Indonesia, together with related balances; such loans are repayable not later than 2020. Pursuant to the arrangements between the group and its local partners, the company's subsidiary, KCC Resources Limited ("KCC"), has the right, subject to satisfaction of local regulatory requirements, to acquire the three concession holding companies at original cost on a basis that will give the group (through KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners. Under current regulations such rights cannot be exercised. In the meantime, the concession holding companies are being financed by loan funding from the group and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC. A guarantee has been executed by the stone concession company in respect of the amounts owed to the group by the two coal concession companies.

As noted in the group's 2018 annual report published in April 2019, IPA has been served with an arbitration claim by two parties (connected with one another) (the "claimants") with whom IPA previously had conditional agreements to, amongst other things, fund the development of, and operate, the IPA concession. IPA believes that these agreements did not become effective as respects the claimants because, inter alia, certain pre-conditions were never satisfied. Since April, the claimants' detailed claim has been received and the claimants now seek to hold the company liable for any damages awarded against IPA and to seek damages for alleged tortious conduct by the company in conjunction with IPA. Whilst the appointed arbitrators have joined the company as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction (or lack thereof), the company, which was never a party to any of the agreements between IPA and the claimants, has declined to accept jurisdiction or participate in the arbitration. Both IPA and the company (without prejudice to its position concerning the arbitrators' jurisdiction) consider the claims being made to be without merit.

15. Assets available for sale

During the six months to 30 June 2018, the group decided to sell its operating subsidiary, PBJ. The sale completed during the second half of 2018. Accordingly, certain assets and liabilities were temporarily reclassified as available for sale as at 30 June 2018. There are no assets classified as available for sale at 30 June 2019. The amounts reclassified as available for sale at 30 June 2018 were as follows:

	30 June 2018 $'000
Non-current assets	
Property, plant and equipment	71,097
Land titles	2,441
Deferred tax assets	532
Non-current receivables	1,254
Current assets	
Inventories	691
Trade and other receivables	6,540
Cash and cash equivalents	2,753
Current liabilities	
Trade and other payables	(3,788)
Bank loans	(25,097)
Reclassified as available for sale	56,423

16. Fair values of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal and stone interests, as at the balance sheet date. Cash and deposits, dollar notes and sterling notes are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 “Financial instruments: disclosures”. (Level 1 includes instruments where inputs to the fair value measurements are quoted prices in active markets). All other financial instruments are classified as level 3 in the fair value hierarchy. (Level 3 includes instruments which have no observable market data to provide inputs to the fair value measurements.) No reclassifications between levels in the fair value hierarchy were made during 2019 (2018: none).

	30 June 2019 Book value $'000	30 June 2019 Fair value $'000	30 June 2018 Book value $'000	30 June 2018 Fair value $'000	31 December 2018 Book value $'000	31 December 2018 Fair value $'000
Cash and deposits*	9,923	9,923	2,269	2,269	26,279	26,279
Bank debt within one year**	(9,652)	(9,652)	(833)	(833)	(13,966)	(13,966)
Bank debt within one year*	–	–	(27,163)	(27,163)	–	–
Bank debt after more than one year**	(119,821)	(119,821)	(16,176)	(16,176)	(117,008)	(117,008)
Bank debt after more than one year*	–	–	(47,969)	(47,969)	–	–
Loan from related party within one year*	(3,750)	(3,750)	(8,227)	(8,227)	–	–
Loans from non-controlling shareholder after more than one year*	(23,239)	(23,239)	(29,681)	(29,681)	(22,919)	(22,919)
Dollar notes repayable 2022**	(23,763)	(22,172)	(23,686)	(23,254)	(23,724)	(22,833)
Sterling notes repayable 2020**	(38,706)	(34,450)	(40,823)	(42,948)	(38,213)	(39,735)
Net debt and related engagements	(209,008)	(203,161)	(192,289)	(193,982)	(189,551)	(190,182)

* bearing interest at floating rates
** bearing interest at fixed rates

The fair values of cash and deposits, bank debt and loans approximate their carrying values since these carry interest at current market rates. The fair values of the dollar notes and sterling notes are based on the latest prices at which those notes were traded prior to the balance sheet dates.

A one per cent increase in interest applied to those financial instruments shown in the table above which carry interest at floating rates would have resulted over a period of six months in a pre-tax profit (and equity) decrease of approximately $0.2 million (year to 31 December 2018: pre-tax profit (and equity) decrease of $nil; six months to 30 June 2018: $0.6 million).

17. Reconciliation of operating profit to operating cash flows

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Operating loss	(13,694)	(334)	(10,727)
Amortisation of intangible assets	426	414	929
Depreciation of property, plant and equipment	13,158	10,867	22,011
Increase in fair value of agricultural produce	(1,911)	(258)	(305)
Increase in value of growing produce	(938)	(1,299)	(662)
Amortisation of sterling and dollar note issue expenses	417	237	572
Loss on disposal of property, plant and equipment	–	(207)	10
Operating cash flows before movements in working capital	(2,542)	9,420	11,828
Decrease / (increase) in inventories (excluding fair value movements)	6,142	(8,357)	(11,623)
Increase in receivables	(632)	(17,132)	(25,000)
Increase in payables	3,778	26,304	1,053
Exchange translation differences	(1,468)	(670)	13,931
Cash generated / (utilised) by operations	5,278	9,565	(9,811)
Taxes paid	(115)	(34)	(1,771)
Tax refunds received	220	–	1,504
Interest paid	(10,928)	(7,150)	(25,018)
Realised exchange differences	–	–	8,235
Net cash (to) / from operating activities	(5,545)	2,381	(26,861)

18. Movements in net borrowings

	6 months to 30 June 2019 $'000	6 months to 30 June 2018 $'000	Year to 31 December 2018 $'000
Change in net borrowings resulting from cash flows:			
(Decrease) / increase in cash and cash equivalents	(16,356)	(3,274)	20,736
Net decrease / (increase) in borrowings	4,649	2,960	(14,079)
Net (increase) / decrease in related party borrowings	(3,750)	(8,227)	6,469
	(15,457)	(8,541)	13,126
Redemption of 2020 sterling notes	–	–	1,307
Amortisation of sterling notes expenses	(377)	(200)	(497)
Amortisation of dollar notes expenses	(40)	(37)	(75)
Transferred to assets available for sale	–	22,344	–
	(15,874)	13,566	13,861
Currency translation differences	(3,583)	8,610	11,053
Net borrowings at beginning of period	(189,551)	(214,465)	(214,465)
Net borrowings at end of period	(209,008)	(192,289)	(189,551)

19. 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.

During the period 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 during the period to, and outstanding at, 30 June 2019 is $3.7m. This disclosure is made in compliance with the requirements of Listing Rule 9.8.4.

20. Events after the reporting period

There have been no material post balance sheet events that would require disclosure in, or adjustment to, these financial statements.

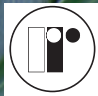
21. Rates of exchange

	30 June 2019		30 June 2018		31 December 2018	
	Closing	Average	Closing	Average	Closing	Average
Indonesian rupiah to US dollar	14,141	14,229	14,404	13,813	14,481	14,215
US dollar to pound sterling	1.2728	1.29	1.3203	1.37	1.2689	1.33

Reference to "dollars" and "$" are to the lawful currency of the United States of America. References to rupiah are to the lawful currency of Indonesia.

22. Cautionary statement

This document contains certain forward-looking statements relating to R.E.A. Holdings plc (the "group"). The group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the group to differ materially from those contained in any forward-looking statement. These statements are made by the directors in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.



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