Proposed capitalisation issue

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R.E.A.Hldgs PLC 05 September 2007 R.E.A. Holdings plc - Proposed capitalisation issue === Summary ------- The company announced earlier today as part of the announcement of its interim report for the six months ended 30 June 2007 that it proposed to make a capitalisation issue to ordinary shareholders. The company now further announces that it is today despatching a circular (the "circular") to shareholders providing information regarding the proposed issue. Pursuant to the issue, it is proposed that ordinary shareholders will be allotted new preference shares on the basis of one new preference share for every 30 ordinary shares held at the close of business on 1 October 2007. The new preferences shares will be issued credited as fully paid by way of capitalisation of share premium account. To avoid an allottee of 1,000 or fewer new preference shares being forced either to retain what that allottee may regard as a relatively small allotment or to incur disproportionately high selling costs in realising the allotment, it is further proposed that the company will (except to the extent that allottees otherwise elect) aggregate all new preference shares comprised in allotments of 1,000 or fewer new preference shares and sell the resultant aggregated holding on behalf of the relative allottees (subject to achievement of a minimum gross price of 100p per share as specified below). Since implementation of the proposals will require certain shareholder approvals, a notice is set out at the end of the circular convening an extraordinary general meeting of the company, to be held on 2 October 2007, for the purposes of considering and, if thought fit, passing the resolutions necessary to implement the proposals. Background ---------- As shareholders will be aware, the group's business consists of oil palm operations in East Kalimantan, a province of Indonesia. The operations have been developed entirely since the early 1990's and their development has involved major investment by the group. Financing this investment has posed significant challenges for the group and, for several years, the directors felt constrained to recommend that no dividends be paid on the ordinary shares. In 2006, with the 13,000 hectares of oil palms planted over the period 1994 to 2000 approaching full maturity, the directors decided that the group's cash flow could support the resumption of ordinary dividends at a modest level and an interim dividend in lieu of final of 1p per ordinary share was paid in respect of 2006. With the expectation of increasing crops from the group's expanding oil palm hectarage, the directors believe that it will be appropriate over time progressively to increase the aggregate annual rate of dividend paid. However, the group remains committed to an ambitious development programme and implementation of that programme will entail major capital expenditure. The directors are anxious to ensure that ordinary dividend payments remain compatible with financing such expenditure. Balancing the twin objects of increasing the rate of annual ordinary dividends and conserving cash to finance expansion, the directors have indicated in the interim report in respect of 2007 that they anticipate declaring dividends in respect of 2007 totalling 2p per ordinary share (of which a first interim dividend of 1p per ordinary share has been declared for payment on 5 October 2007 and the directors intend that a second interim dividend in lieu of final of 1p per ordinary share should be declared for payment in early 2008). The directors recognise that dividends totalling 2p per ordinary share may not fully reflect recent improvements in the group's financial position and prospects, particularly in a year in which the group is benefiting from CPO prices that are relatively high when compared with average CPO price levels of recent years (albeit that there can be no certainty that current CPO prices will be maintained). The capitalisation issue is proposed with the aim of providing some additional return to ordinary shareholders in what should prove a good year for the group while facilitating the preservation of the company's liquid resources. Capitalisation Issue -------------------- Upon and subject to the terms and conditions described below, it is proposed that holders of ordinary shares on the register of members at the close of business on 1 October 2007 be allotted 1,085,795 new preference shares credited as fully paid at par by way of capitalisation of £1,085,795 standing to the credit of the company's share premium account, on the following basis: 1 new preference share for every 30 ordinary shares held at the close of business on 1 October 2007 (and so in proportion for any greater or lesser number of ordinary shares held) provided that fractional entitlements to new preference shares will be aggregated and sold on terms that the company will be entitled to retain the proceeds of sale. The 1,085,795 new preference shares proposed to be issued pursuant to the capitalisation issue would represent 9.5 per cent of the 11,449,624 existing preference shares currently in issue (not including the 1,064,581 new preference shares that it was announced, as part of the announcement of the company's interim report for the six months ended 30 June 2007, that the company is proposing to issue for cash at a price of 105p per share by way of a placing with institutional investors). Sale arrangement --------------- The directors have been concerned that an ordinary shareholder receiving a small allotment of new preference shares pursuant to the capitalisation issue might find it unsatisfactory to be faced with a choice between retaining what he may regard as a relatively small investment or incurring disproportionately high selling costs in realising his allotment. Equally, the company would prefer not to add a large number of small holdings of preference shares to the company's register of members as the future costs to the company of doing so would, in the opinion of the directors, be disproportionate to the benefits to the company and the members concerned. Accordingly, under the sale arrangement, it is proposed that where an ordinary shareholder is allotted 1,000 or fewer new preference shares pursuant to the capitalisation issue and such shareholder does not elect to retain the new preference shares in question, the company will, subject as provided below, arrange for those preference shares to be aggregated with preference shares allotted to other ordinary shareholders with similar allotments and placed by Guy Butler Limited with one or a small number of professional investors. The proceeds of sale (net of dealing costs of 1/2 per cent as referred to below) will then be distributed to the original allottees of the shares so sold pro rata to the numbers of shares sold on their behalf. Whilst it is impossible to predict the price at which the holdings of participants in the sale arrangement will be sold, the company will endeavour to obtain the highest price reasonably realisable at the time of sale. As an indication to prospective participants, the average of the closing mid market quotations for an existing preference share as derived from the Daily Official List of the London Stock Exchange on and for the four dealings day immediately prior to 4 September 2007 (the latest practicable date before the publication of the circular) was 111.5p. The company will not sell new preference shares the subject of the sale arrangement at a price of less than 100p per share. If, as a result, no sale of such new preference shares has been made on or before the close of business on 10 October 2007, the sale arrangement will be abandoned and prospective participants in the sale arrangement will retain the new preference shares allotted to them. The company has agreed with Guy Butler Limited a dealing commission of 1/2 per cent of the gross proceeds of shares sold pursuant to the sale arrangement for the services of Guy Butler Limited in connection with the sale arrangement, such commission to be borne by the participants in the arrangement. On the basis of the composition of the company's register of ordinary shareholders as at 4 September 2007 (the latest practicable date before the publication of the circular), 898 ordinary shareholders would be allotted 1,000 or fewer new preference shares pursuant to the capitalisation issue representing in aggregate 50,917 new preference shares (being some 4.7 per cent of the new preference shares proposed to be issued pursuant to the capitalisation issue). The directors recognise that the restriction of the sale arrangement to ordinary shareholders who are allottees of 1,000 or fewer new preference shares pursuant to the capitalisation issue will mean that the treatment of those shareholders pursuant to the capitalisation issue will differ from that of other ordinary shareholders. The directors consider that allottees of 1,000 or fewer new preference shares are in a different position from other ordinary shareholders due to the cost implications for the company of adding a large number of small holdings to its register of members. Elections to retain new preference shares that would otherwise be subject to the sale arrangement will be irrevocable and may only be made pursuant to the election forms that are enclosed with the circular. Further forms of election, if required as a result of any as yet unregistered sale or other transfer of ordinary shares or any sale or other transfer following the date of the circular, will be available on request from the company's registrars, Capita Registrars, of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0870 162 3121). Ordinary shareholders holding ordinary shares for a number of beneficial owners, one or more of whom will be beneficially entitled to 1,000 or fewer new preference shares pursuant to the capitalisation issue and who wish to avail themselves of the sale arrangement, should act immediately to transfer the relevant number of ordinary shares into a separate account. Further terms ------------- The new preference shares to be issued pursuant to the capitalisation issue will upon issue rank pari passu in all respects with the existing preference shares and, in particular, will rank for dividend on 31 December 2007 as if their dividend entitlement on that date had accrued (at the rate of 9 per cent per annum) with effect from and including 1 July 2007. The existing preference shares are already admitted to trading on the London Stock Exchange's market for listed securities. No expenses of or incidental to the capitalisation issue will be charged to allottees of new preference shares and the new preference shares will be registered by the company in the names of the allottees thereof free of stamp duty and stamp duty reserve tax. New preference shares the subject of the sale arrangement will be sold on terms that stamp duty or stamp duty reserve tax payable on transfer of those shares will be borne by the purchaser(s) of the shares and not the participants in the sale arrangement. However, the dealing c ommission of 1/2 per cent referred to above, payable in connection with the sale arrangement, will be deducted in calculating the net proceeds of sale of new preference shares sold pursuant to the arrangement. No premium will be payable upon issue of any of the new preference shares. Conditions ---------- The proposals are conditional upon: the passing of the first resolution set out in the notice of the extraordinary general meeting of the company convened for 2 October 2007 admission of the new preference shares to the Official List and to trading on the London Stock Exchange's market for listed securities and such admissions becoming effective on or before 5.00 pm on 31 October 2007. The sale arrangement is further conditional upon the passing of the second resolution set out in the notice of the extraordinary general meeting of the company convened for 2 October 2007. Risk factors ------------ The capitalisation issue will result in holders of ordinary shares receiving new preference shares. The risks attaching to an investment in the preference shares differ in some respects from those attached to an investment in the ordinary shares. The existing market capitalisation of the preference share capital of the company is substantially less than that of the ordinary share capital and this may be expected to remain the case for the foreseeable future. An investment in the preference shares may therefore be more illiquid than an investment in the ordinary shares. The value of an investment in any shares of the company may be affected by many factors including general economic conditions, levels of interest rates, political events and trends, tax laws, rates of inflation and changes or perceived changes in the group's performance and prospects. Because the preference shares are fixed income securities, the impact of such factors on the value of the preference shares may differ from its impact on the ordinary shares. Meetings -------- As already noted, an extraordinary general meeting of the company has been convened for 12.00 noon on 2 October 2007, to be held at the London office of the company's solicitors, Ashurst, at Broadwalk House, 5 Appold Street, London EC2A 2HA. Two resolutions are set out in the notice of the meeting. Of these, the first resolution will be proposed as an ordinary resolution and the second resolution as a special resolution. The first resolution provides authority pursuant to article 154 of the company's articles of association for the directors to implement the capitalisation issue (including, subject to the passing of the second resolution, the sale arrangement). The second resolution amends article 156 of the articles of association of the company by adding a specific authority in relation to the capitalisation issue to empower the directors to implement the sale arrangement. The full text of the proposed new article 156 is set out in the second resolution. Recommendation -------------- The board considers that the proposed capitalisation issue is in the best interests of the company and its shareholders as a whole. The board also considers that the proposed sale arrangement and amendment of the articles of association of the company are in the best interests of the company and its shareholders as a whole. Accordingly, the board recommends all ordinary shareholders to vote in favour of both resolutions set out in the notice of extraordinary general meeting of the company convened for 2 October 2007 as the directors (and persons connected with them within the meaning of section 346 of the Act) intend to do in respect of their own beneficial holdings. The beneficial holdings of the directors (and persons connected with them within the meaning of section 346 of the Act) comprise 997,394 ordinary shares (representing 3.1 per cent of the ordinary shares in issue). Further information ------------------- Copies of the circular will be available for inspection at the Document Viewing Facility of the UK Listing Authority up to and including the date of the extraordinary general meeting convened for 2 October 2007 and may be obtained free of charge from the company at its registered office, First Floor, 32-36 Great Portland Street, London W1W 8QX. A copy of the circular is also being placed on the company's website at www.rea.co.uk. Expected Timetable ------------------ Latest time and date for receipt of proxies for use in connection with the extraordinary general meeting 12.00 noon on 30 September 2007 Latest time and date for receipt of election forms 3.00 pm on 1 October 2007 Record date for the capitalisation issue 1 October 2007 Extraordinary general meeting 12.00 noon on 2 October 2007 Admission of new preference shares to the Official List and to trading on the London Stock Exchange effective and proposals unconditional 8.00 am on 3 October 2007 CREST accounts credited in respect of new preference shares 3 October 2007 Definitive share certificates despatched in respect of new preference shares 17 October 2007 Cheques despatched (representing net proceeds of sale of new preference shares sold pursuant to the sale arrangement despatched) 17 October 2007 Definitions ----------- Unless the context otherwise requires, the following definitions apply throughout this announcement: "Act" the Companies Act 1985 (as amended) "board" the board of directors of the company "Capita Registrars" a trading division of Capita IRG Plc "capitalisation issue" the proposed capitalisation issue of 1,085,795 new preference shares to be allotted to holders of ordinary shares, credited as fully paid by way of capitalisation of share premium account, on the basis of one new preference share for every 30 ordinary shares held at the close of business on 1 October 2007 "company" or "REA" R.E.A. Holdings plc "CPO" crude palm oil "CREST" the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo Limited is the operator "directors" directors of the company "election form" the form upon which a holder (or joint holders) of ordinary shares who is/are (a) prospective allottee(s) of 1,000 or fewer new preference shares pursuant to the capitalisation issue may elect (in whole or in part) not to participate in the sale arrangement "existing preference shares" the existing issued preference shares "group" the company and its subsidiaries "London Stock Exchange" London Stock Exchange plc "new preference shares" the new preference shares proposed to be issued pursuant to the capitalisation issue "Official List" the list maintained by the Financial Services Authority in accordance with section 74(1) of the Financial Services and Markets Act 2000 "ordinary shares" ordinary shares of 25p each in the capital of the company "preference shares" 9 per cent cumulative preference shares of £1 each in the capital of the company "proposals" the proposals, details of which are set out in this document, for the capitalisation issue and the sale arrangement "sale arrangement" the arrangement whereby the company will (except to the extent that allottees otherwise elect) aggregate all new preference shares comprised in allotments of 1,000 or fewer new preference shares pursuant to the capitalisation issue and arrange for the resultant aggregated holding to be placed by Guy Butler Limited with one or a small number of professional investors (subject to achievement of the minimum price referred to under "Sale arrangement" above) "shareholders" holders of ordinary shares and/or preference shares