

# Circ re. cnv loan stk

R.E.A.Hldgs PLC 18 August 2005 Summary ----- R.E.A. Holdings plc announces that it has despatched a circular (the "circular") to holders of ordinary shares, preference shares, warrants and convertible loan stock containing proposals for (i) the conversion of the outstanding £3,050,497 nominal of convertible loan stock into new ordinary shares and dollar notes on terms that the holders of the new ordinary shares arising on conversion of the convertible loan stock will be entitled to a capitalisation issue of further new ordinary shares so as to result in every £100 nominal of convertible loan stock being exchanged for 164 new ordinary shares and \$163 nominal of dollar notes and (ii) the creation of additional dollar notes (so as to increase the prospective issue size to \$30,000,000) to be issued for cash or other appropriate consideration, as required and as markets permit, over a period of up to four years. The circular is accompanied by a prospectus (the "dollar note prospectus").

Introduction ----- It was announced on 23 May 2005 that the company was considering proposals for the conversion of the convertible loan stock into a combination of new ordinary shares and new dollar denominated loan notes. A further announcement was made on 3 August 2005 giving the principal terms on which it would be proposed that the conversion be effected and stating the directors' intention to build on the issue of new listed dollar denominated loan notes that would result from the conversion of the convertible loan stock by creating additional dollar notes, ranking *pari passu* with the dollar notes to be issued on conversion, to be available for issue for cash or other appropriate consideration, as required and as markets permit, over a period of up to four years. Detailed proposals regarding the proposed conversion and creation of additional dollar notes have now been formulated and the purpose of the circular is to provide information regarding such proposals. Since implementation of the proposals will require certain approvals from holders of listed securities of the company, notices are set out at the end of the circular convening a meeting of warrant holders, a meeting of convertible loan stock holders, a class meeting of the holders of ordinary shares and an extraordinary general meeting of the company, all to be held on 12 September 2005, for the purposes of considering and, if thought fit, passing the resolutions necessary to implement the proposals.

Background ----- The entire business of the group is represented by oil palm operations in the province of East Kalimantan in Indonesia. Whilst those operations are now producing profits and positive operational cash flow, this has been achieved only after a testing period of several years. That period started with the economic destabilisation that occurred in Indonesia in late 1997 and was followed, in 1998, by political destabilisation accompanied by the collapse of many Indonesian companies and banks. After several years, the Indonesian economy is now recovering but, in the interim, the problems faced were compounded by a fall in the price of crude palm oil from May 1998 to May 2001 when the price moved from a high of \$705 per tonne to a low of \$234 per tonne (in both cases CIF Rotterdam, as published by Oil World). Against this background, the group has been forced in recent years to raise substantial capital to support the East Kalimantan operations and to finance the withdrawal of capital provided by other investors in those operations. That capital has been found from issues of listed securities and from new borrowings in Indonesia but the nature and terms of the finance raised have, to a considerable extent, been dictated by availability rather than choice. As a result, the present financial structure of the group is not, in the opinion of the directors, ideally matched with the directors' plans for the group's future development.

Reasons for the proposals ----- A fundamental financing problem that the group faces is that, in order to maximise the equity returns from its oil palm development programme, it needs to finance a prudent proportion of development costs with debt. The group is able to, and does, borrow from banks in Indonesia but borrowings are currently available to the group only for average terms of less than three years. Such maturities do not fit well with the growth cycle of an oil palm which takes nearly four years to

maturity from nursery planting and then a further period of three to four years to full yield. Moreover, if the group is to maintain a sensible proportion of debt, it must, as its equity base grows, seek to add rather than repay debt. Continuing reliance on Indonesian borrowings therefore commits the group to a cycle of regular refinancings. This is expensive and inefficient and the uncertainty that it creates limits the group's financial flexibility in a manner that is likely to become increasingly burdensome as cash flow builds and the directors have to decide whether to allocate cash resources to establishing a cash reserve to meet debt repayments or to development expenditure and paying dividends. The directors believe that one answer to this problem is to seek longer term debt from markets external to Indonesia. Given the company's size, it cannot readily make a new issue of debt securities for cash in a manner that would meet the requirements of the conventional markets for such securities. However, the directors believe that if an issue of listed debt securities can be established, it should be possible, over an extended period, progressively to increase the level of the debt securities in issue by a series of small offerings. Such a process would dovetail well with the group's requirement for an alternative source of debt finance since that requirement is primarily for new funding to meet maturing obligations as these arise rather than to refinance existing debt. Because crude palm oil is priced in dollars, it is prudent for the group to borrow in dollars. Moreover, the South East Asian markets that are obvious markets for debt securities of the company are principally dollar markets. Accordingly, the directors would prefer any new issue of debt securities by the company to be denominated in dollars. A second deficiency of the group's present financial structure is the convertible loan stock. That stock was issued in May 2002 at a low point in the group's fortunes and is now traded on the London Stock Exchange at a large premium to its par value. The directors take this premium to mean that the convertible loan stock is essentially viewed as an indirect investment in the company's equity as, whilst the stock does provide some income to holders, that income is not substantial in relation to the current capital value of the stock. Moreover, the stock is relatively illiquid to the extent that certain holders have elected to exercise the conversion rights attaching to their holdings so as to convert all or part of those holdings into more marketable ordinary shares. From the company's viewpoint, the presence of the convertible loan stock as debt on its balance sheet, when the stock is in substance equity, is unsatisfactory because it complicates dealings with some counterparties. The current proposals have been formulated to address the establishment of a new issue of listed debt securities and the elimination of the convertible loan stock. If approved, the proposals will achieve this by converting a proportion of the convertible loan stock into new dollar notes (with the balance of the stock being converted into equity). The benefit to the company of establishing the dollar note issue and eliminating the convertible loan stock permits the provision to convertible loan stockholders, as a term of the proposals, of a premium over the value of the ordinary shares that they would receive were they to convert their stock on the basis of the existing conversion terms. Conversion and capitalisation issue

----- Upon and subject to the terms and conditions described below, it is proposed that holders of convertible loan stock on the register of stockholders at the close of business on 12 September 2005 should exchange their stock for new ordinary shares and dollar notes on the basis of: 164 ordinary shares and \$163 nominal of dollar notes for every £100 nominal of convertible loan stock held and so in proportion for any other nominal amount of convertible loan stock held. Fractional entitlements to ordinary shares and dollar notes will not be allotted and entitlements to ordinary shares and dollar notes will be rounded down to the nearest integral number or amount. For legal reasons, this exchange will be effected in stages. First, £10 nominal of each holding of £100 nominal of convertible loan stock will be converted into 20 fully paid new ordinary shares (and so in proportion for any other amount of convertible loan stock held). Secondly, the balance of the convertible loan stock will be converted into fully paid dollar notes on the basis of \$163 nominal of dollar notes for every £100 nominal of convertible loan stock held immediately prior to the conversion of £10 nominal per £100 nominal of stock into new ordinary shares as just described (and so in proportion for any other amount of convertible loan stock held).

Simultaneously with the conversion of the balance of the convertible loan stock, stockholders (in their capacity as the holders of the new ordinary shares arising pursuant to the conversion) will be

allotted, by way of capitalisation of up to £1,098,178.75 standing to the credit of share premium account, a further 144 new ordinary shares, credited as fully paid, for every 20 new ordinary shares issued pursuant to the conversion (and so in proportion for any other number of new ordinary shares so issued). The proposal to effect the overall exchange of convertible loan stock for ordinary shares and dollar notes by way of a conversion and a capitalisation issue reflects the fact that, after allowing for the nominal amount of convertible loan stock to be converted into dollar notes (issued at par), the nominal amount of convertible loan stock available to be converted into ordinary shares would be insufficient to pay up in full, at their par value of 25p each, the number of ordinary shares that the terms of the overall exchange propose be issued. By law, ordinary shares cannot be issued fully paid at a discount to their par value. The split of the exchange of the convertible loan stock for the full 164 new ordinary shares and \$163 nominal of dollar notes for every £100 nominal of convertible loan stock held into two stages is necessary as, by law, ordinary shares issued by way of capitalisation of share premium account can only be issued to persons who are shareholders. In the most unlikely event that the first conversion (of £10 nominal per £100 nominal of each holding of convertible loan stock into 20 new ordinary shares) became unconditional but the conversion of the balance of the convertible loan stock into dollar notes and the capitalisation issue did not become unconditional, holders of convertible loan stock would be left with 20 new ordinary shares and £90 nominal of convertible loan stock per £100 nominal of stock originally held. This situation could only occur if, after the first conversion became unconditional, the admission of the dollar notes arising from conversion, and of the new ordinary shares arising from the capitalisation issue, to the Official List and to trading on the London Stock Exchange's market for listed securities failed to become effective. The conversion of the balance of the convertible loan stock into dollar notes cannot, under the terms of the proposals, become unconditional unless the capitalisation issue also becomes unconditional. Particulars of the dollar notes ----- The dollar notes will be created pursuant to resolutions of the board and will be constituted by a trust deed to be executed between the company and The Law Debenture Trust Corporation p.l.c. as trustee. Holders of the dollar notes will be bound by, and be deemed to have notice of, all of the provisions of the trust deed. The dollar notes will be issued in registered form in amounts and integral multiples of \$1 and will be listed on the Official List and traded on the London Stock Exchange's market for listed securities. The dollar notes will bear interest at the rate of 7.5 per cent per annum, payable half yearly in arrear on 30 June and 31 December of each year save that interest payable on 31 December 2005 will be calculated as if it accrued with effect from 1 July 2005 (and that, as respects further issues of dollar notes as described below, the interest rate for the first period following the date of issue of such notes will be calculated as if interest had accrued from the most recent interest payment date). Unless previously redeemed or purchased and cancelled by the company, the dollar notes will be redeemed at par by three equal annual instalments commencing 31 December 2012. If dollar notes have been purchased by the company and cancelled, the amount of dollar notes that the company will be obliged to redeem on any given redemption date will be reduced by the nominal amount of dollar notes purchased and cancelled prior to that redemption date (save in so far as such notes were purchased and cancelled prior to a previous redemption date and taken into account in reducing the dollar note redemption requirement in relation to that previous redemption date). Holders of dollar notes will be entitled to elect (and all holders of convertible loan stock will, as detailed under "Further terms" below, be deemed to have elected) to receive payments of interest and redemption monies due in respect of their holdings of dollar notes in pounds sterling. Where any such election has been made (or deemed made) and remains in force, the amount of each dollar payment that, absent the election, would be due to the electing holder in respect of the dollar notes held by that holder will be converted to pounds sterling by the company shortly ahead of the due date of the payment and the resultant conversion proceeds will be paid to the holder in lieu of the dollar amount that would otherwise be payable. Any election (or deemed election) to receive payments in respect of the dollar notes in pounds sterling may be revoked by not less than 30 days' notice in writing to the company's registrars ahead of any date upon which a payment of interest or redemption monies will fall due. The dollar notes will be unsecured obligations of the company.

The trust deed constituting the dollar notes will contain no restrictions on further borrowings by the company ranking in priority to or pari passu with the dollar notes save that the company will covenant to procure that the overall borrowings of the group do not exceed an amount equal to 11/2 times the share capital and reserves of the group (as defined in the conditions to the dollar notes). The trust deed constituting the dollar notes will contain provisions pursuant to which the trustee, on behalf of itself and the holders of the dollar notes, will irrevocably consent to one or more reductions of share capital and/or amounts standing to the credit of the company's share premium account and/or capital redemption reserve, up to a maximum aggregate amount of £6 million, and to the release of the reserves thereby created to the distributable reserves of the company, subject only to the necessary consent of the court and provided always that such reduction(s) would not result in the company being in breach of the borrowing restriction set out in the conditions to the dollar notes. The directors have no immediate plans to propose a reduction in the capital of the company but they are concerned that, as the company's profits derive almost exclusively from the group's East Kalimantan operations, the future funding requirements of those operations may, at least for a period, restrict the ability of, or make it fiscally inefficient for, the company's Indonesian subsidiaries to pay dividends. In those circumstances, the directors would not wish constraints posed by the availability of distributable reserves in the company to inhibit the payment of dividends that the directors would, from a commercial viewpoint, feel able to recommend. This might mean that the directors would wish to put forward proposals to increase the distributable reserves of the company. Further terms ----- As a further term of the conversion and capitalisation issue, interest on the convertible loan stock will cease to accrue after 30 June 2005 (being the last date upon which interest was paid on the stock) but interest on dollar notes issued pursuant to the conversion will bear interest calculated as if accruing from 1 July 2005. As noted under "Particulars of the dollar notes" above, all holders of convertible loan stock will be deemed to have elected, in accordance with conditions 4 and 5(D) endorsed on certificates issued in respect of the dollar notes, to receive interest and redemption monies payable in respect of the dollar notes to be issued pursuant to the conversion in pounds sterling rather than in dollars. Any such election may be revoked by notice in writing to the company as set out in such condition 4. The new ordinary shares to be issued pursuant to the conversion and capitalisation issue will upon issue rank pari passu in all respects with the existing issued ordinary shares, save that the new ordinary shares issued pursuant to the conversion will entitle the holders thereof to receive the new ordinary shares to be issued pursuant to the capitalisation issue. The existing ordinary shares are already admitted to trading on the London Stock Exchange's market for listed securities. No expenses of or incidental to the conversion or the capitalisation issue will be charged to allottees of new ordinary shares and dollar notes. It is not considered that any UK stamp duty or stamp duty reserve tax should arise on issue of the new ordinary shares and/or dollar notes but should any such duty or tax be payable by any allottee on such issue, the company will refund the amount so payable to the relevant allottee. Conditions ----- The proposals are conditional upon: the passing of the extraordinary resolutions set out in the notices of the meetings of warrant holders, convertible loan stock holders and holders of ordinary shares, all convened for 12 September 2005; the passing of the three resolutions set out in the notice of the extraordinary general meeting of the company convened for 12 September 2005; as respects the first stage of the conversion as described under "Conversion and capitalisation issue" above (whereby £10 nominal per £100 nominal of each holding of convertible loan stock will be converted into 20 new ordinary shares), admission of the new ordinary shares arising to the Official List and to trading on the London Stock Exchange's market for listed securities and such admissions becoming effective; and as respects the balance of the proposals, the first stage of the conversion becoming unconditional and admission of the dollar notes arising from the conversion and the further new ordinary shares arising from the capitalisation issue to the Official List and to trading on the London Stock Exchange's market for listed securities and such admissions becoming effective. Financial implications of the conversion and capitalisation issue ----- Implementation of the conversion and capitalisation issue would result in the issue of up to 5,002,815 new ordinary shares and \$4,972,310



nominal of dollar notes. That compares with the 5,755,654 new ordinary shares (ignoring fractional entitlements) that would fall to be issued on full conversion of the convertible loan stock in accordance with its existing conversion terms. An effect of the conversion and capitalisation issue will therefore be to reduce by 752,839 the number of new ordinary shares that would otherwise fall to be issued as a result of conversion of the convertible loan stock and to substitute therefor \$4,972,310 (equivalent at the latest dollar sterling rate to £2,747,133) of debt. The annual interest payable by the company on the dollar notes to be issued pursuant to the conversion will amount to some \$372,923 (equivalent at the latest dollar sterling rate to £206,035). That compares with the annual interest currently payable on the convertible loan stock of some £122,020 (equivalent at the latest dollar sterling exchange rate to \$220,856). On the basis of the latest dollar sterling exchange rate and of the mid market quotations (as derived from the Daily Official List of the London Stock Exchange) as at the close of business on 2 August 2005 (the dealing day last preceding the date upon which the principal terms of the proposals were announced) of an ordinary share and £1 nominal of the convertible loan stock of, respectively, 233.5p and 450p, and assuming that the dollar notes will have a market value equal to their par value, holders of convertible loan stock will obtain a 5 per cent increase in capital value as a result of exchange of their holdings of convertible loan stock for new ordinary shares and dollar notes pursuant to the conversion and capitalisation issue. No dividends have been paid on the ordinary shares in recent years. While that situation continues, the annual income receivable by holders of convertible loan stock in respect of the new ordinary shares and dollar notes that they would receive on implementation of the conversion and capitalisation issue would, on the basis of the latest dollar sterling exchange rate, represent an increase of 69 per cent over the annual income receivable in respect of their existing holdings of convertible loan stock. Release of security for the convertible loan stock

----- The company, certain of its directors and MP are the object of actual and threatened claims from the MEZ group (which owns 12.3 per cent of the issued ordinary shares of Makassar, a subsidiary of the company that serves as a sub-holding company for the East Kalimantan operations of the group). The terms of the convertible loan stock contain provisions whereby, in the event that the company were to be placed in insolvent liquidation as a result of those claims, holders of the convertible loan stock would automatically convert their holdings into 98 per cent of the issued ordinary share capital of MP (a sub-holding company within the group) as enlarged by such conversion. MP holds 68 per cent of the issued ordinary share capital of Makassar. No similar conversion provisions have been included in the terms of the dollar notes. In the opinion of the directors, the increases in the profitability of the group and in the market capitalisation of the company that have occurred since May 2002 (when the convertible loan stock was issued) have been such that the theoretical possibility that the MEZ group claims could, if successful, cause the insolvency of the company is now sufficiently remote that the conversion rights referred to in the preceding paragraph no longer confer a material benefit on holders of the stock. Additionally, while the directors have always considered the MEZ group claims to be without merit, they believe that the evolution of events since 2002 should provide additional support in proving that such claims are baseless. Further issues of dollar notes and use of resultant proceeds

----- Pursuant to the proposals, \$30,000,000 nominal of dollar notes will be created of which up to \$4,972,310 will be issued pursuant to the conversion. The directors propose to seek to issue the balance of the dollar notes by way of multiple placings, principally with substantial investors, over a period of up to four years so as to maintain an appropriate level of group indebtedness and to match (insofar as reasonably practicable) and meet the maturing obligations and other funding requirements of the group, namely: the maintenance of a cash buffer designed to ensure that, in the event of a material downturn in the price of crude palm oil, the group remains able, on realistic assumptions, to carry to maturity all immature oil palm plantings and to expand established milling capacity to an extent sufficient to process all crop from such immature areas as these come into production the funding (in part) of debt repayments in respect of existing borrowings of the group that fall due over the next four years the funding (in whole or part) of any monies that may become payable to the MEZ group pursuant to an acquisition

of the minority shareholding held by the MEZ group in Makassar or otherwise as a result of settlement of the MEZ group claims. The directors currently envisage that, subject as provided below, not more than \$10 million of dollar notes will be issued over the twelve months following the publication of the circular (in addition to the \$5 million of dollar notes to be issued pursuant to the conversion) and that the balance of the dollar notes would, if market conditions permit, then be issued in stages over the succeeding three years. Agreement has been reached between the company and the MEZ group that there should be an attempt to resolve the MEZ group claims by way of mediated discussions commencing in late September 2005. The directors are unable to judge the likelihood of such discussions producing a settlement of the MEZ group claims but should they do so or should a settlement otherwise be agreed, the planned timing of dollar note issues may be brought forward to assist in funding such settlement. Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt (meaning the aggregate amount of borrowings and other indebtedness of the group (other than intra-group indebtedness), less cash, bank deposits and similar balances), as a general indication they believe that a target level not exceeding 50 per cent of the aggregate of capital employed (meaning the aggregate amount of share capital, consolidated reserves (taking the oil palm plantations at estimated fair value) and minority interests) and net debt is appropriate to the group at its present stage of development. Applications will be made to the Financial Services Authority and to the London Stock Exchange for such of the created but unissued dollar notes as may be issued within the twelve months following the date of publication of the dollar note prospectus to be admitted upon issue to the Official List and to the London Stock Exchange's market for listed securities, subject to due compliance with the rules applicable to offering programmes.

Additional conversion period ----- The company has agreed with The Law Debenture Trust Corporation p.l.c., as trustee for the holders of the convertible loan stock, that in the event that the conversion should fail to become fully unconditional, the terms of the convertible loan stock will be amended so as to provide for an additional conversion period during the month of November 2005.

Interim results in respect of the six months ended 30 June 2005 ----- Were it not for the recent changes to the accounting principles which a listed company is obliged to apply in preparing its accounts (being the change from UK Generally Accepted Accounting Principles to International Financial Reporting Standards), the company would have expected to issue its interim results in respect of the six months ended 30 June 2005 during September 2005. However, as a result of the changes, and the additional work that this will cause, the issue of the interim results will be delayed. The interim results will be issued by 28 October 2005.

Current trading ----- Although a drier period experienced during the second half of 2004 could have caused some moisture stress, the directors are optimistic that the good rainfall received over 2004 as a whole will mean that the East Kalimantan operations will yield normally during 2005. On that basis, the FFB crop for 2005 has been budgeted at 331,000 tonnes. Some disruption to operations occurred in April and May 2005 as a result of severe flooding from the Belayan and Mahakam rivers following exceptionally heavy rainfall during that period but the directors do not expect this to result in a material shortfall against budget in terms of FFB harvested. Delays to harvesting caused by the disruption did, however, have some negative impact for a few weeks both on the quality of CPO output and on the CPO extraction rate achieved resulting in an estimated overall loss of potential sales revenues for the period in question of 5 per cent. Following delays to the 2004 extension planting programme caused by disputes over land compensation payments with certain individuals from local villages, compensation relating to the 2005 extension planting area was negotiated and settled with a single village head appointed by all of the affected individuals to negotiate on their behalf. It had been hoped that this methodology for settlement would ensure that the 2005 land clearing programme could be completed without any delays. Regrettably, however, this has not proved the case and some delays to the clearing programme are again being experienced following representations by certain of the affected individuals that the compensation arrangements to which they had agreed should be renegotiated. Given that a limited delay in the transfer of oil palm seedlings from nursery

to field should have no effect on the maturing of 2005 plantings, the directors do not currently expect that the delays in question will have a material adverse impact on future crops expected from the 2005 extension planting programme. Higher world freight rates have in the past twelve months increased the differential between CPO prices CIF and FOB but CPO prices at present levels still provide the group with more than acceptable margins. Accordingly, the directors expect that 2005 will prove to be another good year. The City Code on Takeovers and Mergers

----- The company's largest shareholder, Emba, currently owns 7,203,983 ordinary shares, representing 35.8 per cent of the issued ordinary share capital of the company, and £1,380,980 nominal of convertible loan stock, representing 45.3 per cent of the outstanding convertible loan stock. That holding of convertible loan stock includes £10,000 nominal of convertible loan stock acquired on 17 August 2005 in connection with the proposals by Emba from Emba Services Limited Pension Scheme (which is acting in concert with Emba) at a price of 450p per £1 nominal of convertible loan stock. Implementation of the conversion and capitalisation issue would result in the exchange by Emba of its existing holding of convertible loan stock for 2,264,807 new ordinary shares and \$2,250,997 nominal of dollar notes. The aggregation of the new ordinary shares so received by Emba with Emba's existing holding of ordinary shares would result in Emba owning a total of 9,468,790 ordinary shares, representing 37.7 per cent of the issued ordinary share capital of the company as enlarged by the new ordinary shares issued pursuant to the conversion and capitalisation issue. An effect of the conversion and capitalisation issue would therefore be to increase the percentage of the voting rights attaching to the company's share capital held by Emba. Under Rule 9 of the City Code on Takeovers and Mergers, except with the consent of the Panel on Takeovers and Mergers, any person who, together with persons acting in concert with him, holds not less than 30 per cent nor more than 50 per cent of the voting rights of a public company and increases the percentage of the voting rights held by him is required to extend a general offer in cash to all remaining shareholders enabling, inter alia, such remaining shareholders to exit from their investment in the company concerned. Although implementation of the conversion and capitalisation issue would result in an increase in the percentage of the voting rights attaching to the company's share capital held by Emba, the Panel on Takeovers and Mergers has agreed to waive the requirement for a general offer provided that Emba's increased percentage holding is approved by independent shareholders of the company by way of an ordinary resolution taken on a poll. Therefore, the second resolution set out in the notice of extraordinary general meeting convened for 12 September 2005 (which provides for approval of Emba's increased percentage ownership of voting shares of the company) will be put to a poll on which Emba will not vote. Emba also owns 41,420 warrants and persons acting in concert with Emba own a further 116,900 warrants. As stated above, implementation of the conversion and capitalisation issue would result in an increase in the percentage of the voting rights attaching to the company's share capital held by Emba from 35.8 per cent to 37.7 per cent. Were Emba and the persons acting in concert with it (together the "concert group") to exercise in full the warrants held by them and no other warrants rights were exercised, the percentage of the voting rights attaching to the company's share capital held by the concert group would be further increased from 37.7 per cent to 38.1 per cent (or, if the conversion and capitalisation issue did not become unconditional but the concert group were to exercise in full the warrants held by it and no other warrant rights were exercised, such percentage would increase from 35.8 per cent to 36.3 per cent). Although the concert group has confirmed to the board that it has no current intention of exercising any of the warrants held by it, the directors have nevertheless decided that the extraordinary general meeting convened for 12 September 2005 will provide a suitable opportunity to obtain independent shareholder approval for the possible further increase in the percentage of the voting rights attaching to the company's share capital held by the concert group were such warrants to be exercised. Thus the second resolution set out in the notice of the extraordinary general meeting also provides for this approval. As stated above, this resolution will be put to a poll on which Emba will not vote (and no other member of the concert group is eligible to vote as Emba is the only member of the concert group that owns voting shares of the company). Meetings ----- As already noted, the following meetings have been convened for 12 September

2005, all of which are to be held at the offices of the company's solicitors, Ashurst, at Broadwalk House, 5 Appold Street, London EC2A 2HA: a meeting of warrant holders to be held at 10.15 am a meeting of convertible loan stock holders to be held at 10.20 am (or so soon thereafter as the meeting of warrant holders has been concluded or adjourned) a class meeting of holders of ordinary shares to be held at 10.25 am (or so soon thereafter as the meeting of convertible loan stock holders has been concluded or adjourned) an extraordinary general meeting of the company (at which only holders of ordinary shares may vote) to be held at 10.30 am (or so soon thereafter as the class meeting of holders of ordinary shares has been concluded or adjourned) The rights attaching to the warrants include provision that, save with the consent of an extraordinary resolution of the warrant holders, the company must not (other than in certain limited circumstances) distribute capital profits or reserves or otherwise capitalise profits or reserves or modify the rights attaching to the ordinary shares. Accordingly, the resolution set out in the notice of the meeting of warrant holders (which will be proposed as an extraordinary resolution) provides for the warrant holders to sanction the capitalisation issue and the modification of the rights attaching to the ordinary shares that the passing of the third resolution set out in the notice of extraordinary general meeting (which makes provision for implementation of the capitalisation issue) would effect. The resolution set out in the notice of meeting of convertible loan stock holders (which will be proposed as an extraordinary resolution) makes provision for implementation of the conversion and capitalisation issue. The resolution set out in the notice of the class meeting of holders of ordinary shares (which will be proposed as an extraordinary resolution) provides for holders of ordinary shares to sanction the modification of class rights attaching to the ordinary shares that the passing of the third resolution set out in the notice of extraordinary general meeting (which makes provision for implementation of the capitalisation issue) would effect. In view of the fact that Emba is a substantial shareholder in the company and owns £1,380,980 nominal of convertible loan stock, the Listing Rules require that the conversion and capitalisation issue be treated as a related party transaction and approved by an ordinary resolution of the company upon which Emba does not vote. Accordingly, the first resolution set out in the notice of extraordinary general meeting (which will be proposed as an ordinary resolution) provides for approval of the participation by Emba in the conversion and capitalisation issue. Emba has undertaken not to vote on this resolution. No associate of Emba (as defined in appendix 1 to the Listing Rules) holds any convertible loan stock or voting shares of the company. The second resolution set out in the notice of extraordinary general meeting (which will be proposed as an ordinary resolution upon which Emba has again undertaken not to vote) provides for the approval required by the City Code on Takeovers and Mergers of the increases in the percentage of the voting rights attaching to the company's share capital held by Emba and persons acting in concert with it that would result from the conversion and capitalisation issue and could result from the exercise of warrants held by Emba and such persons as detailed under "The City Code on Takeovers and Mergers" above. As stated thereunder, Emba has undertaken not to vote on this resolution (and no person acting in concert with Emba owns any voting shares of the company). The third resolution set out in the notice of extraordinary general meeting (which will be proposed as a special resolution) makes provision for implementation of the capitalisation issue by providing for: the articles of association of the company to be amended to permit the capitalisation issue to be made to the holders of the new ordinary shares arising from the conversion by the allotment to such holders of unissued ordinary shares credited as fully paid by way of capitalisation of share premium account; and the directors to be authorised to make the capitalisation issue and to allot, pursuant to such issue, up to £1,098,178.75 nominal of securities of the company (comprising 4,392,715 new ordinary shares and representing 21.8 per cent of the issued ordinary share capital at the date of the circular) pursuant to such issue, such authorisation to expire on 21 October 2005. Recommendation ----- By reason of his family's interest in Emba and the fact that he is to be treated as acting in concert with Emba, Mr R M Robinow, the chairman of the company, has taken no part in any decision of the directors concerning the recommendations to be made by the board to shareholders concerning the first resolution set out in the notice of the extraordinary general meeting convened for 12 September 2005 (which provides for approval of the participation by Emba in the conversion



and capitalisation issue) or the second resolution set out in such notice of meeting (which provides for approval of (i) the increase in the percentage interest in the voting rights attaching to the share capital of the company held by Emba that would result from implementation of the conversion and capitalisation issue and (ii) the increase in the percentage interest in such voting rights held by Emba and persons acting in concert with it that could result from the exercise of warrants held by Emba and such persons). As noted above, Emba will abstain from voting on such first and second resolutions. The independent directors (being all the directors other than Mr R M Robinow), who have been so advised by Canaccord, consider the participation of Emba in the proposals to be fair and reasonable so far as convertible loan stock holders, warrant holders, holders of ordinary shares and holders of preference shares are concerned. The independent directors also consider, having been so advised by Canaccord, that the terms of the proposals and of the waiver by the Panel on Takeovers and Mergers of the bid requirements of Rule 9 of the City Code with regard to (i) the increase in the percentage interest in the voting rights attaching to the share capital of the company held by Emba that would result from implementation of the conversion and capitalisation issue and (ii) the increase in the percentage of such voting rights held by Emba and persons acting in concert with it that could result from the exercise of warrants held by Emba and such persons to be fair and reasonable and in the best interests of convertible loan stock holders, warrant holders, holders of ordinary shares and holders of preference shares. In providing their advice as referred to above, Canaccord has taken into account the commercial assessments of the directors. All the directors are of the opinion that the proposals are in the best interests of convertible loan stock holders, warrant holders, holders of ordinary shares and holders of preference shares as a whole. Accordingly the board recommends that: warrant holders vote in favour of the resolution set out in the notice of the meeting of warrant holders convened for 12 September 2005 convertible loan stock holders vote in favour of the resolution set out in the notice of the meeting of convertible loan stock holders convened for 12 September 2005 holders of ordinary shares vote in favour of the resolution set out in the notice of the class meeting of holders of ordinary shares convened for 12 September 2005 shareholders vote in favour of the three resolutions set out in the notice of the extraordinary general meeting. The independent directors (and persons connected with them within the meaning of section 346 of the Companies Act 1985) intend to vote in favour of the first and second resolutions set out in the notice of the extraordinary general meeting in respect of their own beneficial holdings which amount in aggregate to 714,810 ordinary shares (representing 3.5 per cent of the issued ordinary share capital of the company). All directors (and persons so connected with them) intend to vote in favour of all other resolutions referred to above in respect of their own beneficial holdings which amount in aggregate to 137,900 warrants (representing 8.9 per cent of the warrants in issue), £95,125 nominal of convertible loan stock (representing 3.1 per cent of the outstanding convertible loan stock) and 714,810 ordinary shares (representing 3.5 per cent of the issued ordinary share capital of the company). Emba has undertaken to vote in favour of the resolutions set out in the notices of the meetings of warrant holders and convertible loan stock holders and of the class meeting of ordinary shareholders, and in favour of the third resolution set out in the notice of the extraordinary general meeting in respect of its holdings of 41,420 warrants (representing 2.7 per cent of the warrants in issue), £1,380,980 nominal of convertible loan stock (representing 45.3 per cent of the outstanding convertible loan stock) and 7,203,983 ordinary shares (representing 35.8 per cent of the issued ordinary share capital of the company). Trustee ----- The Law Debenture Trust Corporation p.l.c. as trustee (the "Trustee") for the holders of the convertible loan stock has not been involved in the formulation of the company's proposals outlined in the circular and, in accordance with normal practice, expresses no opinion as to the merits of the passing of the extraordinary resolution set out in the notice convening the meeting of convertible loan stock holders. The Trustee has, however, authorised it to be stated that on the basis of the information contained in the circular and the terms of the extraordinary resolution set out in the notice convening the meeting of convertible loan stock holders, it has given consent to the issue of such notice, and of the circular of which the notice forms a part, to inter alia, holders of the convertible loan stock, and has no objection to the information contained therein being presented to the holders of the convertible

stock for their consideration. Further information ----- Copies of the circular and of the dollar note prospectus 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 12 September 2005 and may be obtained free of charge from the company at its registered office, Third Floor, 40-42 Osnaurgh Street, London NW1 3ND. Copies of the circular and of the dollar note prospectus are also being placed on the company's website at [www.rea.co.uk](http://www.rea.co.uk). Expected timetable ----- Latest time and date for receipt of proxies for use in connection 10.15 am on with the meeting of warrant holders 10 September 2005 Latest time and date for receipt of proxies for use in connection 10.20 am on with the meeting of convertible loan stock holders 10 September 2005 Latest time and date for receipt of proxies for use in connection 10.25 am on with the class meeting of holders of ordinary shares 10 September 2005 Latest time and date for receipt of proxies for use in connection 10.30 am on with the extraordinary general meeting 10 September 2005 Meeting of warrant holders 10.15 am on 12 September 2005 Meeting of convertible loan stock holders 10.20 am on 12 September 2005 Class meeting of holders of ordinary shares 10.25 am on 12 September 2005 Extraordinary general meeting 10.30 am on 12 September 2005 Record date 12 September 2005 CREST accounts credited in respect of new ordinary shares issued 13 September pursuant to the conversion 2005 Proposals fully unconditional 14 September 2005 CREST accounts credited in respect of dollar notes issued 14 September pursuant to the conversion and new ordinary shares issued 2005 pursuant to the capitalisation issue Definitive share certificates despatched in respect of new 21 September ordinary shares and dollar notes issued pursuant to the conversion 2005 and capitalisation issue Enquiries ----- John Oakley R.E.A. Holdings plc 020 7419 0100 Definitions ----- Unless the context otherwise requires, the following definitions apply throughout this press release "board" or the directors of the company "directors" "Canaccord" Canaccord Capital (Europe) Limited "capitalisation the proposed capitalisation issue of up to 4,392,715 new issue" ordinary shares to be allotted, credited as fully paid, to the holders of the new ordinary shares arising pursuant to the conversion on the effective proportionate basis of 144 new ordinary shares for every £100 nominal of convertible loan stock held, such shares to be allotted credited as fully paid by way of capitalisation of share premium account "company" or R.E.A. Holdings plc "REA" "conversion" the proposed conversion of the outstanding convertible loan stock on the proportionate basis of 20 new ordinary shares and \$163 nominal of dollar notes for every £100 nominal of convertible loan stock held "conversion and the conversion and the capitalisation issue which would capitalisation together result in the exchange of the outstanding issue" convertible loan stock for new ordinary shares and dollar notes on the proportionate basis of 164 new ordinary shares and \$163 nominal of dollar notes for every £100 nominal of convertible loan stock held "convertible loan the £3,050,497 nominal of 4 per cent convertible loan stock stock" 2012 of the company currently in issue "dollar notes" \$30,000,000 nominal of 7.5 per cent dollar notes 2012/14 of the company of which up to \$4,972,310 nominal is proposed to be issued pursuant to the conversion and the balance (ranking pari passu and forming a single issue therewith) is proposed to be issued for cash or other appropriate consideration, as required and as markets permit, over a period of up to four years "Emba" Emba Holdings Limited "group" the company and its subsidiaries "latest dollar the exchange rate of £1=\$1.81 ruling on 15 August 2005, the sterling rate" latest practicable date prior to the publication of the circular "Listing Rules" the listing rules of the Financial Services Authority "London Stock London Stock Exchange plc Exchange" "Makassar" Makassar Investments Limited, a member of the group "MEZ group" Mr M E Zukerman and entities associated (or understood to be associated) with him, including Bodley Investment Company, M. E. Zukerman & Co. Incorporated, M. E. Zukerman Investments Limited and The Zukerman Family Trust, or, where the context so requires, any one or several of such individual and entities "MEZ group actual and threatened claims by the MEZ group against the claims" company, certain of its directors and MP as described under "MEZ group claims" in Part VIII of the dollar note prospectus or, where the context so requires, any one or several of such claims "MP" Makassar Participation plc, a member of the group "new ordinary up to 5,002,815 new ordinary shares proposed to be issued shares" pursuant to the conversion and 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 ordinary shares of 25p each in the capital of the company shares" "preference 9 per cent cumulative preference shares of £1 each in the shares" capital of the company "proposals" the proposals, details of which are set out in the circular, for (i) the conversion and capitalisation issue, and (ii) the creation of additional dollar notes "shareholders" holders of ordinary shares and/or preference shares "warrants" the 1,548,807 warrants of the company currently in issue, each entitling the holder to subscribe for one ordinary share at a price of 73.5p either in cash or by surrender of 0.735 preference shares This information is provided by RNS The company news service from the London Stock Exchange