Circ re. capitalisation issue

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R.E.A.Hldgs PLC
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R.E.A. Holdings plc

Proposals for a capitalisation issue

Summary

In the company's half yearly report for the six months ended 30 June 2013 published in August 2013, the directors notified their intention to propose a capitalisation issue of new preference shares to ordinary shareholders. The company now announces that it is despatching a circular (the "circular") to shareholders providing detailed information concerning these proposals.

Pursuant to the capitalisation issue, it is proposed that ordinary shareholders will be allotted new preference shares on the basis of three new preference shares for every 50 ordinary shares held at 5.00 pm on 24 October 2013. The new preferences shares will be issued credited as fully paid by way of capitalisation of share premium account.

To avoid allottees of 1,000 or fewer new preference shares being forced to choose between either retaining what they may regard as relatively small allotments or incurring disproportionately high selling costs in realising their allotments, 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 new preference share as specified below).

Implementation of the capitalisation issue and the sale arrangement requires shareholder approval. Accordingly, a notice is set out at the end of the circular convening an extraordinary general meeting of the company, to be held on 24 October 2013, for the purposes of considering and, if thought fit, passing the resolutions necessary to implement the proposals.

In accordance with the Prospectus Rules issued by the Financial Conduct Authority in compliance with relevant European law, no prospectus is required to be published in connection with the proposed capitalisation issue and related sale arrangement. Accordingly, it should be noted the company is not publishing a prospectus in relation to the proposals.

Background to the capitalisation issue

It has been the policy of the directors for some years to propose capitalisation issues of new preference shares as a method of augmenting returns to ordinary shareholders in periods in which good profits are achieved by the group but, in the opinion of the directors, demands on cash resources for, in particular, expansion limit the scope for payment of dividends in respect of the ordinary shares.

As noted in the half yearly report published in August 2013, the performance of the group in the six months to 30 June 2013 would not usually be regarded by the directors as sufficient to support such an augmentation of returns to ordinary shareholders. However, albeit that the results recently reported were a disappointment, they relate to a period that, the directors are confident, is over. Relations with local villagers have improved, agricultural operations are now back to a more stable basis and operating costs remain under good control with the methane capture and composting initiatives of recent years continuing to prove their worth and with the negative effect of the recent provincial authority mandated increase in wages mitigated by a weaker Indonesian rupiah.

The group's policy of carrying reserve liquidity sufficient to provide some protection in the event of an unexpected downturn has meant that the group has been able to maintain its development programme notwithstanding the lower than expected cash generation in 2012 and the first half of 2013. The directors remain optimistic that the group's extension planting programme can continue at a good pace, particularly given that only limited expenditure on further milling capacity should be needed over the next four years.

Given that the directors believe that the group is recovering from a difficult period, it follows that the directors also believe that, as the recovery continues, shareholders can look forward to significant growth in the group's business from successful implementation of the development programme now in hand. The need to fund the development programme will, however, continue to constrain the rates at which the directors feel that they can prudently declare or recommend the payment of dividends in respect of the ordinary shares for at least the current year. Accordingly, the directors have concluded that they should, notwithstanding the loss reported, recommend repeating the capitalisation issue made in 2012.

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 5.00 pm on 24 October 2013 be allotted 2,105,116 new preference shares credited as fully paid at par by way of capitalisation of £2,105,116 standing to the credit of the company's share premium account, on the following basis:

3 new preference shares for every 50 ordinary shares

(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 2,105,116 new preference shares proposed to be issued pursuant to the capitalisation issue would represent 4.21 per cent of the 50 million preference shares currently in issue.

Sale arrangement

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 similar allotments of preference shares to other ordinary shareholders who do not elect to retain their 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 ½ 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 dealing days immediately prior to 26 September 2013 (the latest practicable date before the publication of this document) was 113p.

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 31 October 2013, 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 ½ 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 26 September 2013 (the latest practicable date before the publication of this document), 702 ordinary shareholders would be allotted 1,000 or fewer new preference shares pursuant to the capitalisation issue representing in aggregate 59,086 new preference shares (being some 2.8 per cent of the new preference shares proposed to be issued pursuant to the capitalisation issue).

The directors are proposing the sale arrangement because they are 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 or she may regard as a relatively small investment or incurring disproportionately high selling costs in realising the allotment. Moreover, as was the case in 2012 and in previous years, the directors consider that adding a large number of small holdings of preference shares to the company's register of members may not be in the best interest of the company as a whole, as the future costs to the company of such an addition would, in the opinion of the directors, be disproportionate to the benefits to the company and the members concerned. Because of these factors, the directors have concluded, as they did in 2012 and in previous years, that the applicable small shareholders should not be considered to be in the same position as other shareholders and that the proposed sale arrangement is in the best interests of the company and its shareholders as a whole.

Ordinary shareholders who do not wish to retain their prospective holdings of preference shares and whose holdings will not be eligible for sale pursuant to the sale arrangement are invited to ask their broker or other professional adviser to contact Guy Butler.

Further terms of the capitalisation issue

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 2013 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 2013. The existing preference shares are already admitted to trading on the London Stock Exchange's main 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 commission of ½ 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.

Risk factors applicable to the capitalisation issue

The capitalisation issue will result in holders of ordinary shares receiving new preference shares, paid up in full at par by way of capitalisation of share premium account. Accordingly, albeit that the new preference shares are to be allotted without payment by shareholders, the share premium account of the company will be reduced by the aggregate par value of the new preference shares (namely £2,105,116).

The value of an investment in any shares may go down as well as up. Value may be affected by many factors including general economic conditions, political events and trends, tax laws, and changes or perceived changes in the relevant group's performance and prospects. The value of an investment in shares in the company may also be affected by perceived country risk (all of the group's operations are located in East Kalimantan, Indonesia). 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 preference shares are fixed income securities; the impact of the factors listed above on the value of the preference shares may differ from their respective impacts on the value of the ordinary shares. Other factors may more directly and immediately affect the value of an investment in fixed income securities, such as levels of interest rates and rates of inflation.

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 dealing days immediately prior to 26 September 2013 (the latest practicable date before the publication of this document) was 113p. The value of a preference share could, in the future, fall below this amount, and could fall below even the par value of the shares paid up out of share premium account. Thus, there is a risk that when holders of the preference shares issued pursuant to the capitalisation issue sell the preference shares issued to them, whether pursuant to the sale arrangement or at some future date, they may not realise 113p per share, nor even £1 per share.

The preference shares carry a right entitling the holder to receive a fixed dividend, payable in two half yearly equal instalments, equal to nine per cent per annum (exclusive of the imputed tax credit available to holders of the preference shares) of the nominal amount paid up on the preference shares (£1 per share). However, this dividend is only payable to the extent that the company has the necessary distributable reserves, and is subject to the directors resolving to pay the same. Thus, there is a risk that the dividend may not be paid on any particular dividend payment date. In such an event, the dividend would accumulate and would be payable before any further dividend was paid in respect of the ordinary shares.

Conditions

The capitalisation issue and the sale arrangement are conditional upon:

- the passing of the first resolution set out in the notice of the extraordinary general meeting of the company convened for 24 October 2013; and

- admission of the new preference shares to the Official List and to trading on the London Stock Exchange's main market for listed securities and such admissions becoming effective on or before 5.00 pm on 31 October 2013.

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 24 October 2013.

Meeting

Under section 141 of the articles of association of the company, the authority of the company in general meeting is required before the directors implement proposals such as the capitalisation issue and the sale arrangement. Accordingly, an extraordinary general meeting of the company has been convened for 11.00 am on 24 October 2013, to be held at the London offices of the company's solicitors, Ashurst LLP, at Broadwalk House, 5 Appold Street, London EC2A 2HA. Two resolutions are set out in the notice of such meeting, each of which will be proposed as an ordinary resolution.

The first resolution provides authority pursuant to article 141(a) of the company's articles of association for the directors to implement the capitalisation issue.

The second resolution provides authority pursuant to article 141(b) of the company's articles of association for the directors to effect the proposed sale arrangement.

Recommendation

The board considers that each of the capitalisation issue and the sale arrangement is in the best interests of the company and its shareholders as a whole.

Accordingly, the board recommends that all ordinary shareholders vote in favour of the two resolutions set out in the notice of the extraordinary general meeting of the company convened for 24 October 2013 as the directors (and persons connected with them as defined in section 96B(2) of the Financial Services and Markets Act 2000) intend to do in respect of their own holdings comprising 10,459,247 ordinary shares (representing 29.81 per cent of the issued ordinary share capital of the company).

Further information

Copies of the circular will shortly be available for inspection on the National Storage Mechanism of the UK Listing Authority 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

Timetable

Latest time and date for receipt of forms of proxy for use in connection with the extraordinary general meeting	11.00 am on 22 October 2013
Extraordinary general meeting	11.00 am on 24 October 2013
Latest time and date for receipt of forms of election	3.00 pm on 24 October 2013
Record date for the capitalisation issue	24 October 2013
Admission of new preference shares to the Official List and to trading on the London Stock Exchange effective and capitalisation issue unconditional	8.00 am on 25 October 2013
CREST accounts credited in respect of new preference shares	25 October 2013
Definitive share certificates despatched in respect of new preference shares	8 November 2013
CREST accounts credited and cheques despatched (in each case in respect of cash proceeds arising from the sale of new preference shares pursuant to the sale arrangement)	8 November 2013

Definitions

Unless the context otherwise requires, the following definitions apply throughout this announcement:

"Act"	the Companies Act 2006
"board"	the board of directors of the company
"Capita Asset Services"	a trading name of Capita Registrars Limited
"capitalisation issue"	the proposed capitalisation issue of 2,105,116 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 3 new preference shares for every 50 ordinary shares held at 5.00 pm on 24 October 2013
"company"	R.E.A. Holdings plc
"CPO"	crude palm oil
"CREST"	the computerised settlement system operated by Euroclear UK & Ireland Limited to facilitate the transfer of title to securities held in uncertificated form
"directors"	the directors of the company
"existing preference shares"	the preference shares currently in issue
"form of election"	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
"group"	the company and its subsidiaries
"London Stock Exchange"	London Stock Exchange plc
"new preference shares"	the preference shares proposed to be issued pursuant to the capitalisation issue
"Official List"	the list maintained by the Financial Conduct 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")

"shareholders"	holders of ordinary shares and/or preference shares
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland

References to "dollars" or to "$" are to the lawful currency of the United States of America. References to "sterling" or to "£" are to the lawful currency of the United Kingdom

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