

**Press Notice**

**25 November 2008**

## **PRESS NOTICE**

### **PRE-EMPTION GROUP WELCOMES REPORT OF THE RIGHTS ISSUE REVIEW GROUP**

The Pre-Emption Group today welcomed the Rights Issue Review Group's report to the Chancellor of the Exchequer, which recognises that pre-emption remains an important part of companies' accountability to their shareholders.

At the same time, the Pre-Emption Group published its latest report on the use being made of the statutory provision allowing companies to disapply pre-emption rights with shareholders' approval. The Group has found there was a slight increase in the number of companies making use of this provision during the last twelve months.

Scott Dobbie, Chairman of the Pre-Emption Group, said:

"We welcome the Review Group's report and its constructive recommendations to improve the operation of the rights issue process without undermining the principles of pre-emption and compensation. The Pre-Emption Group will provide whatever assistance it can to ensure these recommendations are implemented effectively."

The Pre-Emption Group's latest monitoring report covers the period October 2007 to September 2008. As well as an increase in the total number of resolutions seeking to disapply pre-emption rights, there was also an increase in the number of "non-routine" resolutions (i.e. proposed rights issues equivalent to more than 5% of the company's total share value). All but three of the "non-routine" resolutions that were put to the vote were passed.

#### **Notes for Editors**

1. Pre-emption rights give existing shareholders in a company the right to subscribe for their pro rata share of any new shares in that company issued for cash, providing them with protection against inappropriate dilution of their investments. Pre-emption rights are enshrined in law and, under the Companies Act 2006, may be disapplied only by a special resolution of shareholders at a general meeting of the company.

# Pre-Emption Group

2. The Statement of Principles was issued in 2006 and updated in July 2008. It replaced the Pre-emption Guidelines, which had been published in 1987. The principles relate to issues of equity securities for cash other than on a pre-emptive basis pro rata to existing shareholders by all UK companies with a primary listing on the Main Market of the London Stock Exchange. The principles state that:
  - While pre-emption rights remain a cornerstone of UK company law and provide shareholders with protection against inappropriate dilution of their investments, a degree of flexibility is appropriate in circumstances where new equity issuance on a non pre-emptive basis would be in the interests of companies and their owners.
  - Companies have a responsibility to signal an intention to seek a non-pre-emptive issue at the earliest opportunity and to establish a dialogue with the company's shareholders.
  - Shareholders have a responsibility to engage with companies to help them understand the specific factors that might inform their view on a non-pre-emptive issue by the company. They should review the case made by companies on its merits and decide on each case individually using the usual investment criteria.
3. During the period October 2007 to September 2008 companies put forward 612 resolutions to disapply pre-emption rights, of which 80 sought approval for a non-pre-emptive issue equivalent to more than 5% of the company's share value (known as "non-routine" requests). The figures for the previous twelve months were 525 and 64 respectively. Of the 80 non-routine requests, three were rejected by shareholders, four were not put to the vote, but all others were approved.
4. Copies of the Statement of Principles and the latest monitoring report can be obtained from [www.pre-emptiongroup.org.uk](http://www.pre-emptiongroup.org.uk).
5. Members of the Pre-Emption Group represent listed companies, investors and intermediaries. Full details of membership can also be obtained from [www.pre-emptiongroup.org.uk](http://www.pre-emptiongroup.org.uk).
6. The Rights Issue Review Group's report to the Chancellor of the Exchequer was published on 24 November 2008 and can be obtained from: [http://www.hm-treasury.gov.uk/prebud\\_pbr08\\_rightsissues.htm](http://www.hm-treasury.gov.uk/prebud_pbr08_rightsissues.htm).
7. Press enquiries should be directed to Scott Dobbie (tel: 020 7645 0603; e-mail: [scott.dobbie@sii.org.uk](mailto:scott.dobbie@sii.org.uk)).