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Stafford Cap. Ptrnrs - Questions re Phaunos 2018 Annual General Meeting
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FOR IMMEDIATE RELEASE

4 September 2018

All-Cash Offer

for

Phaunos Timber Fund Limited ("Phaunos")

by

**Mahogany Bidco Limited ("Stafford Bidco")
a company ultimately controlled by
Stafford Capital Partners Limited ("Stafford")**

Phaunos 2018 Annual General Meeting

Introduction

On 3 July 2018, Stafford Bidco, a company wholly-owned by Stafford International Timberland Fund VIII and ultimately controlled by Stafford, announced an all-cash offer for Phaunos by Stafford Bidco, on behalf of Stafford International Timberland Fund VIII, pursuant to which Stafford Bidco would acquire the entire issued and to be issued share capital of Phaunos not already directly or indirectly owned by it or its concert parties (the "**Offer**"). On 22 August 2018, Stafford Bidco announced that it was extending the offer until 1.00 p.m. on 5 September 2018.

The full terms and conditions of the Offer and the procedures for acceptance were set out in the offer document posted to Phaunos Shareholders on 31 July 2018 (the "**Offer Document**"). Unless otherwise stated, defined terms used but not defined in this announcement have the meanings set out in the Offer Document.

Phaunos Shareholders are reminded that the next closing date of the Offer is **1.00 p.m. (London time) on 5 September 2018** at which point, if Stafford Bidco has not received acceptances from Phaunos Shareholders representing at least 90 per cent. in value of the Phaunos Shares affected, Stafford Bidco will be entitled either to lapse the Offer or to extend it to a new closing date.

Phaunos Annual General Meeting

On 3 August 2018, Phaunos announced that its next annual general meeting (the "**2018 AGM**") would be held on 6 September 2018. Stafford, in its capacity as a shareholder of Phaunos and the ultimate controller of Stafford Bidco, considers the

responses to the following questions to be pertinent to Phaunos Shareholders' views of the Asset Realisation Process and the Offer.

(A) General

1. Have the potential bidders in the Asset Realisation Process been through more than one round of indicative offers? Have the bidders already commenced their due diligence and what is the deadline for binding offers?
2. In the Phaunos 2017 Annual Report, Ernst & Young LLP ("**EY**") stated that one of the judgements that Phaunos management has made is the anticipation that *"the realisation of the assets will take between fourteen to twenty months from the date of this report [30 April 2018], although there are material uncertainties inherent in the disposal process which may result in this time period being extended"*.

Have EY been consulted on the updated timetable for the Asset Realisation Process given the statement by Phaunos in its defence circular to the Offer (the "**Defence Circular**") that the Phaunos Board *"expects the sale of all the assets to complete within 6 to 9 months, which would cover the sale of assets comprising 92% of the Portfolio Value"*?

3. Do the Phaunos Directors intend to pay themselves an incentive fee associated with the sale of assets in the Phaunos portfolio in addition to their annual remuneration and their additional fees charged at £300 per hour per Phaunos Director for time spent which is in excess of their monthly minimum hours?
4. Has the OIO given the Phaunos Board written assurances that it is able to process applications in the timeframe indicated by the Phaunos Board in its Defence Circular?
5. When will Phaunos release its interim financial statements for the period ended 30 June 2018 and will these statements disclose the additional fees that the Phaunos Directors have received over and above the quarterly fees and quarterly supplementary fees that the Phaunos Directors receive?

(B) Matariki dispute

6. Is Phaunos able to enter into binding agreement(s) for the sale of the Matariki Interest whilst the proceedings issued by Rayonier Canterbury LLC ("**Rayonier**") in the Auckland High Court are on-going?
7. Has the Phaunos Board received legal advice relating to the expected duration of the proceedings issued by Rayonier?
8. In its announcement on 28 August 2018, the Phaunos Board states that *"Rayonier has also written to Phaunos purporting to serve in accordance with the terms of the Shareholders Agreement an Acquisition Notice on Phaunos in response to the alleged breach"*.

What other rights or remedies may be available to Rayonier pursuant to the shareholders agreement in relation to Matariki that could impact on the timing of any proposed disposal of Matariki?

9. If Rayonier were to be entitled to purchase the Matariki Interest for NZD 225 million, it is estimated¹ that Phaunos' Updated Break-Up NAV (as such term is used in the Defence Circular) would fall from US\$0.51 to US\$0.43 per Phaunos Share and the Updated Going Concern NAV (as such term is used in the Defence Circular) would fall from US\$0.58 to US\$0.51 per Phaunos Share. Would the Phaunos Board like to comment on this?

Phaunos Shareholders should also consider any response from the Phaunos Board to these questions in the context of the Offer from Stafford Bidco being conditional on the Matariki Interest not being disposed of.

(C) Potential inaccuracy

10. In the Phaunos 2017 Annual Report, revenue from timber operations for the year ended 31 December 2017 was shown as US\$6.535 million from Mata Mineira (note 4 to the accounts). Stafford previously questioned whether this figure represents a potentially significant inaccuracy relative to the actual revenues for this period. Please could the Phaunos Board confirm that revenue received from the timber operations of Mata Mineira did indeed amount to US\$6.535 million for the year ended 31 December 2017?

Offer Document

In addition, the following questions for the Phaunos Board which were included in the Offer Document have not been specifically addressed in the Defence Circular.

1. Will there be any cash distribution this year?
2. When will the Phaunos Board publish its estimates of the general running costs and costs of the Asset Realisation Process through to its completion, including:
 - ongoing management and operational costs;
 - audit, valuation, sales agents and other professional fees;
 - directors' remuneration, including directors' fees, additional consultancy fees and any other fees, costs or expenses payable to, or incurred by, the Phaunos Board; and what these costs will be if the Offer is accepted; and
 - liquidators' fees?
3. What are the Phaunos Board's estimates of the retentions required following the disposals under the Asset Realisation Process and the future cash costs of maintaining those assets not included in this process?
4. What are the Phaunos Board's estimates of the timing and costs of the eventual liquidation of Phaunos?

Stafford continues to believe that, in order to be able to make their own assessment of the realisation value of indicative offers received pursuant to the Asset Realisation Process and the likely timing of any subsequent returns of capital to Phaunos Shareholders, Phaunos Shareholders need to receive satisfactory responses to the questions outlined above.

Accordingly, Stafford looks forward to discussing these matters with the Phaunos Board and other Phaunos Shareholders at the 2018 AGM.

¹ News update and research email from Numis Securities Limited dated 29 August 2018

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Important notice

Lancea LLP, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting exclusively for Stafford and Stafford Bidco and for no one else in connection with the Offer and will not be responsible to anyone other than Stafford and Stafford Bidco for providing the protections afforded to its clients or for providing advice in connection with the Offer.

This announcement is for information purposes only and is not intended to and does not constitute, or form part of, an offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Offer or otherwise, nor shall there be any sale, issuance or transfer of securities of Phaunos in any jurisdiction in contravention of applicable law. The Offer is being made solely by means of the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance, which contains the full terms and conditions of the Offer, including details of how to accept the Offer. Any approval, decision or other response to the Offer should be made only on the basis of the information in the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance. Phaunos Shareholders are strongly advised to read the formal documentation in relation to the Offer and to consult

their independent professional adviser immediately regarding any applicable tax consequences of the Offer.

Cautionary notes regarding forward-looking statements

This announcement, oral statements made regarding the Offer, and other information published by Stafford contain statements which are, or may be deemed to be, "forward-looking statements". Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Stafford about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

The forward-looking statements contained in this announcement include, among others, statements relating to the potential exposure of Phaunos to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions.

Although Stafford believes that the expectations reflected in such forward-looking statements are reasonable, Stafford can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. All forward-looking statements contained in this announcement are expressly qualified in their entirety by the cautionary notes contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements.

Neither Stafford nor any of its associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.

Other than in accordance with their legal or regulatory obligations, Stafford is under no obligation, and Stafford expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

No statement in this announcement is intended as a profit forecast or profit estimate.

Disclosure requirements of the Code

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of

an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Rule 26 disclosure

In accordance with Rule 26 of the Code, a copy of this announcement will be available at www.staffordcp.com by no later than 12 noon (London time) on 5 September 2018.

The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

Availability of hard copies

You may request a hard copy of this announcement by contacting the Receiving Agent, Computershare, on 0370 707 1011 (from within the UK) or on +44 370 707 1011 (if calling from outside the UK). You may also request that all future documents, announcements and information to be sent to you in relation to the Offer should be in hard copy form. A hard copy of this announcement will not be sent to you unless so requested.

Copies of this announcement, the Offer Document and any other document relating to the Offer may not be mailed, distributed, forwarded or otherwise transmitted or made available in, into or from any jurisdiction where this would violate applicable law (including by custodians, nominees and trustees).

Information relating to Phaunos Shareholders

Please be aware that addresses, electronic addresses and certain information provided by Phaunos Shareholders, persons with information rights and other relevant persons for the receipt of communications from Phaunos may be provided to Stafford Bidco during the Offer Period as required under Section 4 of Appendix 4 of the Code as required to comply with Rule 2.11(c) of the Code.

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