Chapter 22
Share Capital

Reference: Companies Ordinance, 1984 and IAS 39

Contents: **Page**

1. Introduction 668

2. Ordinary shares and preference shares 668

 2.1 Ordinary dividends and preference dividends 668
 Example 1: preference dividend 668

 2.2 Cumulative and non-cumulative preference shares 669

 2.3 Participating and non-participating preference shares 669
 Example 2: participating dividend 669

 2.4 Redeemable and non-redeemable preference shares 670
 Example 3: issue of non-redeemable preference shares: equity 670
 Example 4: issue of redeemable preference shares: liability 672

3. Other changes to share capital 675

 3.1 Rights issue 675
 Example 5: rights issue 675

 3.2 Share splits 676
 Example 6: share split 676

 3.3 Share consolidations 676
 Example 7: share consolidation 677

 3.4 Bonus issue 677
 Example 8: Bonus issue 677

 3.5 Share buy-backs 678
 Example 9: share buy-back 678
 Example 10: share buy-back 679

 3.6 Redemption of preference shares 680

 3.6.1 Capital maintenance 680
 Example 11: redemption of preference shares and capital maintenance 680

 3.6.2 Financing of the redemption 682
 Example 12: redemption at par value - issue dependant on financing 682
 Example 13: redemption at par value - issue not dependant on financing 683

 3.6.3 Redemption at a premium 685
 Example 14: redemption at a premium – shares were equity 685
 Example 15: redemption at a premium – shares were liability 686

4. Summary 691

1. Introduction

A business entity requires funds to start and continue running a business. These funds can be obtained from one – or a combination of – two basic sources:
- capital from owners including retained profits (an internal source); and
- loans or debentures (an external source).

In the case of a partnership, the owners would be referred to as partners. In the case of a close corporation, the owners would be referred to as members and in the case of companies, the owners would be referred to as shareholders. This chapter concentrates on the acquisition of funds by a *company* through its *shareholders*.

There are two basic classes of shares that a company may issue:
- ordinary shares (also referred to as common stock); and
- preference shares (also referred to as preferred stock);.

There are two sides to the share capital coin:
- the entity issuing the shares will see the shares as share capital (or financial liabilities under certain circumstances); and
- the entity investing in the shares will see the shares as a financial asset.

This chapter looks at shares from the perspective of the entity that issued the shares. Shares capital from the perspective of the investor is explained in the financial instruments chapter.

2. Ordinary shares and preference shares

2.1 Ordinary dividends and preference dividends

Preference shareholders have preference over the ordinary shareholders in the case of the company being liquidated. Ordinary shares are therefore riskier from an investor perspective than preference shares but they usually outperform preference shares on the stock markets.

Ordinary shareholders are not guaranteed to receive dividends because ordinary dividends are dependant on both the profitability of the company and its cash flow. It should be noted that an interim ordinary dividend is often declared during the year with a final ordinary dividend declared at year-end or shortly thereafter. A dividend should only be recognised once the company has a present obligation to pay the dividend. This obligation arises when the dividends are declared (e.g. a final ordinary dividend for the year ended 31 December 20X2 that is declared in January 20X3, should be recorded in the financial statements for the year ended 31 December 20X3, since there was no obligation before the date of the declaration).

Preference shareholders generally receive a fixed preference dividend annually. The dividend is based on the coupon rate.

Example 1: preference dividend

The company has 1 000 12% preference shares with a par value of C2 each in issue.

Required:
Calculate the preference dividend for the year.

Solution to example 1: preference dividend

1 000 x C2 x 12% (coupon rate) = C240

2.2 Cumulative and non-cumulative preference shares

'Cumulative' or 'non-cumulative' preference shares refer to the status of the dividends:

- 'non-cumulative' preference dividends are not recorded if they are not declared in any one year since the entity has no obligation to pay the dividend; whereas
- 'cumulative' preference dividends are dividends which *must* be paid and therefore if the company is unable to pay the dividend in any one year, this dividend accrues to the preference shareholder until it is paid. No ordinary dividend may be paid until all cumulative preference dividends have been paid.

Interestingly, when a company issues 'cumulative preference shares' it commits itself to the payment of preference dividends until either the company is wound up or the preference shares are redeemed. This means that the company creates a present obligation on the date of issue: a liability equal to all the future preference dividends.

It also stands to reason that if the share issue is to be recorded as a liability, the preference dividends payable thereon would be recognised – for accounting purposes – as finance charges (and not as preference dividends) and disclosed in the statement of comprehensive income (and not in the statement of changes in equity).

You may assume, for the rest of this chapter, that all preference shares are non-cumulative unless the question indicates otherwise.

2.3 Participating and non-participating preference shares

Non-participating preference shares are those where the shareholder does not participate in profits except to the extent of the fixed annual dividend, which is based on the coupon rate. Participating preference shares are those where the shareholders receive, in addition to the fixed annual dividend, a fluctuating dividend, which fluctuates in accordance with the ordinary dividend.

Example 2: participating dividend

A company has 1 000 12% non-cumulative preference shares of C2 each that participate to the extent of 1/5 of the ordinary dividend per share.
The ordinary dividend declared is 10c per share. There are 1 000 C3 ordinary shares in issue.

Required:
Journalise the ordinary and preference dividends.

Solution to example 2: participating dividend

	Debit	Credit
Ordinary dividends	100	
Ordinary shareholders for dividends (L)		100
Ordinary dividends declared (1 000 x 10c)		
Preference dividends	240	
Preference shareholders for dividends (L)		240
Fixed preference dividend owing (1 000 x C2 x 12%)		
Preference dividends	20	
Preference shareholders for dividends (L)		20
Participating preference dividend owing (1 000 x 10c x 1/5)		

Please note: the ordinary dividend and the preference dividend (assuming that the latter related to preference shares that were non-cumulative and non-redeemable and thus were recognised as pure equity) would appear in the statement of changes in equity as a distribution to equity participants.

2.4 Redeemable and non-redeemable preference shares

Redeeming a preference share means returning the capital to the preference shareholder. Therefore, when issuing a preference share that is redeemable at some date in the future, the company immediately commits itself to a future outflow of economic benefits. This issue of shares would then be recognised as a liability. The recognition and measurement of the liability would depend on many factors, inter alia:

- whether the redemption of the preference share is at the option of the company, option of the shareholder or is compulsory on a specific date;
- whether the redemption is to be made at a premium (profit to the shareholder) or discount (loss to the shareholder); and
- whether the coupon rate of the share is greater or less than the market-related interest rate.

If the preference shares are compulsorily redeemable, or are redeemable at the option of the shareholder, the company has, through the issue of such shares, created a present obligation the settlement of which will probably result in an outflow of future economic benefits – and thus created a liability.

If, on the other hand, the preference shares are either non-redeemable or are redeemable at the option of the company, there is technically no present obligation and therefore it is not a liability. These shares will therefore be recognised as equity shares.

Example 3: issue of non-redeemable preference shares recognised as *equity*

On 1 January 20X1 a company issues 50 000 10% non-cumulative, non-redeemable preference shares of C2. The company also has 100 000 ordinary C3 par value shares issued at C3.50. Half of the authorised ordinary and preference shares have been issued. All preference dividends were declared and paid before year-end with the exception of 20X6, when the preference dividend was declared but not yet paid by year-end.

Required:

A. Calculate and show all journal entries from the date of issue of the preference shares to 31 December 20X6.

B. Disclose the ordinary and preference shares in the financial statements for all years affected including 20X6. Show the statement of changes in equity for 20X6 only.

Solution to example 3A: issue of non-redeemable preference shares recognised as *equity*

1/1/20X1	**Debit**	**Credit**
Bank	100 000	
Preference share capital (equity)		100 000
Issue of C2 10% non-redeemable preference shares		
The following two journals marked with an asterisk (*) would be repeated on 31/12/20X1; 31/12/20X2; 31/12/20X3; 31/12/20X4 and on 31/12/20X5:		
Preference dividends (distribution to equity participants) *	10 000	
Preference shareholders (L) *		10 000
Preference dividends: 50 000 x C2 x 10%		
Preference shareholders (L) *	10 000	
Bank *		10 000
Payment of preference dividend		
31/12/20X6		
Preference dividends (distribution to equity participants)	10 000	
Preference shareholders (L)		10 000
Preference dividends: 50 000 x C2 x 10%		

Note: the dividends were paid in each year with the exception of 20X6.

Solution to example 3B: issue of preference shares recognised as *equity*

Company name
Statement of financial position (extracts)
At 31 December 20X6

Equity and Liabilities	**Note**	**20X6 C**	**20X5 C**	**20X4 C**	**20X3 C**	**20X2 C**	**20X1 C**
Share capital and reserves							
Ordinary share capital	3	300 000	300 000	300 000	300 000	300 000	300 000
Preference share capital	4	100 000	100 000	100 000	100 000	100 000	100 000
Share premium	3	50 000	50 000	50 000	50 000	50 000	50 000
Current liabilities							
Preference shareholders for dividends		10 000	0	0	0	0	0

Company name
Statement of changes in equity
For the year ended 31 Dec 20X6

	Ordinary shares C	**Share premium C**	**Preference shares C**	**Retained earnings C**	**Total C**
Opening balance	300 000	50 000	100 000	xxx	xxx
Ordinary dividends declared				(xxx)	(xxx)
Preference dividends declared				(10 000)	(10 000)
Total comprehensive income					xxx
Closing balance	(1) 300 000	(2) 50 000	100 000	xxx	xxx

(1) ordinary shares: 100 000 shares x C3 each; and (2) share premium: 100 000 shares x C0.50 each

Company name
Notes to the financial statements
For the year ended 31 December 20X6 (extracts)

3. Ordinary share capital	**20X6 Number**	**20X5 Number**
Authorised:		
Ordinary shares of C3 each	200 000	xxx
Issued:		
Shares in issue at the beginning of the year	100 000	xxx
Issued during the year	0	xxx
Shares in issue at year-end	100 000	100 000

Please note: *No shares were issued to any director or member of his immediate family, therefore no details thereof are disclosed. The par value of the shares issued, the share premium and the consideration received (the total of the par value and the share premium) is disclosed in the statement of changes in equity. Any preliminary expenses, commission and expenses caused by the issue that may have been charged against the share premium account (if par value) or stated capital account (if no par value) during the period would be disclosed in the statement of changes in equity.*

4. Preference shares

Authorised:
100 000 10% non-redeemable non-cumulative preference shares of C2 each

Issued:	**20X6 C**	**20X5 C**	**20X4 C**	**20X3 C**	**20X2 C**	**20X1 C**
Opening balance	100 000	100 000	100 000	100 000	100 000	0
Issues during the year: 50 000 10% non-redeemable preference shares of C2 each	0	0	0	0	0	100 000
Closing balance	100 000	100 000	100 000	100 000	100 000	100 000

Please note: *No shares were issued to any director or member of his immediate family, therefore no details thereof are disclosed.*

Example 4: issue of redeemable preference shares recognised as a *liability*

On 1 January 20X1 a company issues 50 000 10% cumulative, redeemable preference shares (with a par value of C2 each) at their par value:

- These shares must be redeemed on 31 December 20X6 at a premium of C0.20 per share.
- The effective rate of interest paid is calculated to be 11.25563551%.
- Half of the authorised preference shares have been issued.

The company also has 100 000 issued ordinary C3 PV shares (issued at C3.50). There are a total of 120 000 authorised ordinary shares (unchanged since incorporation).

Required:

A. Calculate and show all journal entries from the date of issue to the date of redemption
B. Disclose the ordinary and preference shares in the financial statements for all years affected excluding 20X6 (the year of redemption). Show the statement of changes in equity for 20X5 only.

Solution 4A: issue of redeemable preference shares recognised as a *liability*

Preference share liability: Effective interest rate = 11.25563551% (given – or calculated as the internal rate of return using a financial calculator)

W1: Effective interest rate table:

	Interest **Dr/ (Cr)**	**Bank** **Dr/ (Cr)**	**Premium accrued: liability** **Dr/ (Cr)**	**Pref. shares: liability** **Dr/ (Cr)**	**Total liability** **Dr/ (Cr)**
1/1/20X1		100 000		(100 000)	(100 000)
31/12/20X1	11 256	(10 000)	(1 256)		(101 256)
31/12/20X2	11 397	(10 000)	(1 397)		(102 653)
31/12/20X3	11 554	(10 000)	(1 554)		(104 207)
31/12/20X4	11 729	(10 000)	(1 729)		(105 936)
31/12/20X5	11 924	(10 000)	(1 924)		(107 860)
31/12/20X6	12 140	(10 000)	(2 140)		(110 000)
31/12/20X6		(110 000)	10 000	100 000	110 000
	70 000	(70 000)	0	0	0

Notice that the total interest of C70 000 equals:

- *dividends of C60 000 (C10 000 x 6 years) + premium on redemption of C10 000 (50 000 x C0.20)*

1/1/20X1	**Debit**	**Credit**
Bank	100 000	
Preference share liability		100 000
Issue of 50 000 C2 10% redeemable preference shares (50 000 x C2)		
31/12/20X1		
Interest expense	11 256	
Premium accrued (L)		1 256
Preference shareholders (L)		10 000
Interest on preference shares: 100 000 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		

Journals continued …:	Debit	Credit
31/12/20X2		
Interest expense	11 397	
Premium accrued (L)		1 397
Preference shareholders (L)		10 000
Interest on preference shares: 101 256 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		
31/12/20X3		
Interest expense	11 554	
Premium accrued (L)		1 554
Preference shareholders (L)		10 000
Interest on preference shares: 102 653 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		
31/12/20X4		
Interest expense	11 729	
Premium accrued (L)		1 729
Preference shareholders (L)		10 000
Interest on preference shares: 104 207 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		
31/12/20X5		
Interest expense	11 924	
Premium accrued (L)		1 924
Preference shareholders (L)		10 000
Interest on preference shares: 105 936 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		
31/12/20X6		
Interest expense	12 140	
Premium accrued (L)		2 140
Preference shareholders (L)		10 000
Interest on preference shares: 107 860 x 11.25563551		
Preference shareholders (L)	10 000	
Bank		10 000
Payment of preference dividend: 50 000 x C2 x 10%		

Solution 4B: issue of redeemable preference shares recognised as a *liability*

Company name
Statement of financial position (extracts)
As at 31 December 20X5

	Note	20X5	20X4	20X3	20X2	20X1
Equity and Liabilities		**C**	**C**	**C**	**C**	**C**
Share capital and reserves						
- ordinary share capital	3	300 000	300 000	300 000	300 000	300 000
- share premium	3	50 000	50 000	50 000	50 000	50 000
Non-current liabilities						
- redeemable preference shares	4	0	105 936	104 207	102 653	101 256
Current liabilities						
- redeemable preference shares	4	107 860	0	0	0	0

Please note that had the preference dividend been declared before year-end and paid after year-end, there would have been a balance on the 'preference shareholders' account at year-end which would be disclosed in the statement of financial position as 'preference shareholders for dividends' under the heading of 'current liabilities'.

Company name
Statement of changes in equity
For the year ended 31 December 20X5

	Ordinary shares	Share premium	Retained earnings	Total
	C	C	C	C
Opening balance – 20X5	300 000	50 000	xxx	xxx
Ordinary dividends declared			(xxx)	(xxx)
Total comprehensive income			xxx	xxx
Closing balance	300 000	50 000	xxx	xxx

Notice that the preference shares do not appear in the statement of changes in equity since they appear as a liability in the statement of financial position and similarly the preference dividends do not appear in the statement of changes in equity since they are included as an expense (finance charges) in the statement of comprehensive income.

Company name
Statement of comprehensive income (extracts)
For the year ended 31 December 20X5

	Note	20X5	20X4	20X3	20X2	20X1
		C	C	C	C	C
Profit before finance charges		xxx	xxx	xxx	xxx	xxx
Finance charges		11 924	11 729	11 554	11 397	11 256
Profit before tax		xxx	xxx	xxx	xxx	xxx
Other comprehensive income		xxx	xxx	xxx	xxx	xxx
Total comprehensive income		xxx	xxx	xxx	xxx	xxx

Company name
Notes to the financial statements
For the year ended 31 December 20X5 (extracts)

2. Accounting policies

2.8 Preference shares

Redeemable preference shares, which are redeemable on a specific date or at the option of the shareholder are recognised as liabilities, as the substance thereof is 'borrowings'. The dividends on such preference shares are recognised in the statement of comprehensive income as finance charges using the effective interest rate method.

Company name
Notes to the financial statements
For the year ended 31 December 20X5 (extracts) continued …

3. Ordinary share capital

	20X6	20X5
Authorised:	**Number**	**Number**
Ordinary shares of C3 each	120 000	120 000
Issued:		
Shares in issue at the beginning of the year	100 000	xxx
Issued during the year	0	xxx
Shares in issue at year-end	100 000	100 000

Please note: *We assumed that no shares were issued to any director or member of his immediate family (since no details thereof were provided in the question), therefore no details thereof are required. The par value of the shares issued, the share premium and the consideration received (the total of the par value and the share premium) is disclosed in the statement of changes in equity. Any preliminary expenses, commission and expenses caused by the issue that may have been charged against the share premium account (if par value) or stated capital account (if no par value) during the current period would also be disclosed in the statement of changes in equity.*

4. Redeemable preference shares

	20X5	20X4	20X3	20X2	20X1
Authorised:	**C**	**C**	**C**	**C**	**C**
10% redeemable preference shares of C2 each	120 000	120 000	120 000	120 000	120 000
Issued:					
Issued 50 000 10% redeemable preference shares of C2 each	100 000	100 000	100 000	100 000	100 000
Premium accrued	7 860	5 936	4 207	2 653	1 256
Balance at year-end	107 860	105 936	104 207	102 653	101 256

The redeemable preference shares are compulsorily redeemable on 31 December 20X6 at a premium of C0.20 per share. The 10% preference dividends are cumulative. The effective interest rate is 11,25563551%.

Please note: *It assumed that no shares were issued to any director or member of his immediate family (since no details thereof were given) therefore no disclosure thereof are required/ possible.*

3. Other changes to share capital

3.1 Rights issue

Rights issues are the offering of a certain number of shares to existing shareholders in proportion to their existing shareholding at an issue price that is lower than the market price.

Example 5: rights issue

A company has 1 000 ordinary shares in issue, each with a C2 par value (issued at C2,50). The company wishes to offer its shareholders 1 share for every 4 shares held at an issue price of C3. The current market price immediately before this issue is C4. All the shareholders had accepted the offer by the last day of the offer.

Required:
A. Journalise this issue.
B. Disclose the issue in the statement of changes in equity.

Solution example 5A: rights issue

Calculations

Number of shares issued	*1 000/4 x 1*	250
Proceeds received	*250 x C3*	C750
Share capital	*250 x C2*	500
Share premium	*C750 – C500 or C250 x (C3 - C2)*	250

Journals	**Debit**	**Credit**
Bank	750	
Ordinary share capital		500
Share premium		250
Shares issued to existing shareholders (1:4) at C3 each (market price: C4)		

Solution example 5B: rights issue

Company name **Statement of changes in equity** **For the year ended ….**	**Ordinary share capital** **C**	**Share premium** **C**	**Retained earnings** **C**	**Total** **C**
Opening balance	2 000	500	xxx	xxx
Issue of shares in terms of a rights issue	500	250		750
Total comprehensive income			xxx	xxx
Closing balance	2 500	750	xxx	xxx

Notice that the shares are offered at C3, which is less than the current market price (C4) but greater than the par value (C2), thus still increasing the share premium by C1 (C3 – C2) per share.

3.2 Share splits

The company splits its authorised and issued share capital into more shares of a lower par value. This has the effect of reducing the market value as well since there are suddenly more shares on the market (supply and demand). This is therefore often done when the company feels that its share prices are too high and it wants to improve marketability.

Example 6: share split

A company has 1 000 shares of C2 each which it converts into 2 000 shares of C1 each.

Required:
Journalise the conversion.

Solution to example 6: share split

Although the number and par value of the authorised and issued share capital will change in the notes, there is no journal entry since there is no change in the share capital or cash resources:

Previously: 1 000 shares at C2 each = C2 000
Now: 2 000 shares at C1 each = C2 000

3.3 Share consolidations

This is the opposite of a share split and is often implemented when the company believes its share price is too low: the company reduces the number of authorised and issued shares and increases the par value. Through supply and demand, the market price should also increase.

Example 7: share consolidation

A company has 1 000 C2 par value shares which it converts into 500 C4 par value shares.

Required:
Journalise the conversion.

Solution example 7: share consolidation

Although the number and par value of the authorised and issued share capital will change in the notes, there is no journal entry since there is no change in the share capital or cash resources:

Previously: 1 000 shares at C2 each = C2 000
Now: 500 shares at C4 each = C2 000

3.4 Bonus issue

A company may issue shares to existing shareholders entirely for free. These bonus shares are often referred to as 'fully paid up' bonus shares meaning that the shareholder will not pay anything for them. A bonus issue is often made in order to make use of the company's reserves – converting idle reserves into capital or instead of a dividend payment due to a possible shortage of cash.

The company may use the following accounts to offer bonus shares:
- The share premium account
- The capital redemption reserve account
- Any other distributable reserve.

Example 8: Bonus issue

The company has 1 000 C1 ordinary shares in issue (issued at C1.50) and issues a further 500 fully paid-up shares to its existing shareholders in proportion to their existing shareholding. The company has a balance of C4 000 in the 'capital redemption reserve fund' account which it would like to use for the purpose of the bonus issue.

Required:
A. Journalise the issue.
B. Disclose the issue in the statement of changes in equity.

Solution example 8A: bonus issue

	Debit	Credit
Capital redemption reserve fund (CRRF)	500	
Ordinary share capital		500
Bonus issue of 500 ordinary C1 shares to existing shareholders		

Solution example 8B: bonus issue

Company name
Statement of changes in equity
For the year ended …

	Ordinary share capital	Share premium	Capital redemption reserve	Retained earnings	Total
	C	C	C	C	C
Opening balance	1 000	500	4 000	xxx	xxx
Bonus issue	500		(500)		0
Total comprehensive income				xxx	xxx
Closing balance	1 500	500	3 500	xxx	xxx

Please note that there is no change in either the equity or the cash resources of the company.

3.5 Share buy-backs

A company may, under certain circumstances, buy-back its own shares from its own shareholders. This may only be done under certain conditions including the following:

- The company has approved the buy-back by passing a special resolution;
- The company has prescribed minimum debt equity and current ratios ; and
- Directors have given a solvency declaration

The reason for these restrictions is that both the cash reserves and the capital base of the company are diminished through an acquisition of this kind – thus putting other shareholders and creditors at risk.
Shares that are bought back are no longer considered to be 'issued shares' (i.e. they are cancelled as issued shares) and are restored to authorised unissued shares (i.e. they are not cancelled entirely: these shares may be re-issued).

Example 9: share buy-back

A company has 1 000 authorised unissued ordinary shares of C2 par value each and 750 issued ordinary shares of C2 par value each (issued at C3 each). The company buys-back 250 of these shares at their par value.

Required:
A. Journalise the buy-back.
B. Disclose the ordinary share capital note and the statement of changes in equity.

Solution example 9A: share buy-back

	Debit	Credit
Ordinary share capital	500	
Bank		500
Buy-back of 250 shares – at par value		

Solution example 9B: share buy-back

Company name
Statement of changes in equity (extract)
For the year ended …

	Ordinary share capital	Share premium	Retained earnings	Total
	C	C	C	C
Opening balance	1 500	750	xxx	xxx
Buy-back of shares	(500)	0		(500)
Total comprehensive income			xxx	xxx
Closing balance	1 000	750	xxx	xxx

Notice that there is no proportional decrease in the share premium account

Company name
Notes to the financial statements
For the year ended ….

3. Ordinary share capital

Authorised:
1 750 ordinary shares of C2 each

Issued:	**Number**
Shares in issue at the beginning of the year	750
Acquisition of shares by the company	(250)
Shares in issue at year-end	500

Please note that the total authorised and unissued shares has now increased by 250 shares to 1 250 shares (1 750 – 500).

Where shares are bought-back at a premium (being at a price greater than their par value) this premium should be set-off against:
- the share premium account restrictions on how much of this account may be used;
- the capital redemption reserve fund; or
- the distributable profits of the company

Example 10: share buy-back – 'par value' shares at a premium

A company has 1 000 authorised unissued ordinary shares of C2 par value each and 750 issued ordinary shares of C2 par value each (issued at C3 each). The company buys-back 250 of these shares at C2.50. The premium on redemption is to be set-off against the capital redemption reserve fund which stood at a balance of C4 000 before the buy-back.

Required:
A. Journalise the share buy-back.
B. Disclose the ordinary share capital note and the statement of changes in equity.

Solution example 10A: share buy-back – 'par value' shares at a premium

		Debit	Credit
Ordinary share capital	*250 x C2*	500	
Premium on buy-back	*250 x C0.50*	125	
Bank			625
A s85 buy-back of 250 C2 shares – at a premium of C0.50			
Capital redemption reserve fund		125	
Premium on buy-back			125
Setting off the premium paid on buy-back against the CRRF			

Solution example 10B: share buy-back – 'par value' shares at a premium

Company name
Statement of changes in equity
For the year ended …

	Ordinary share capital	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Total**
	C	**C**	**C**	**C**	**C**
Opening balance	1 500	750	4 000	xxx	xxx
Share acquisition by the company	(500)		(125)		(625)
Total comprehensive income				xxx	xxx
Closing balance	1 000	750	3 875	xxx	xxx

Company name
Notes to the financial statements (extracts)
For the year ended ….

3. Ordinary share capital	**Number**
Authorised:	
Ordinary shares of C2 each	1 750
Issued:	
Shares in issue at the beginning of the year	750
Acquisition of shares by the company in terms of s85 *(share buy-back)*	(250)
Shares in issue at year-end	500

Please note that the total authorised and unissued shares has now increased by 250 shares to 1 250 shares (1 750 – 500) from 1 000 (1 750 – 750).

3.6 Redemption of preference shares

The redemption of a preference share entails the company paying out the preference shareholder for the preference share. This redemption could be compulsory or at the option of the company or at the option of the shareholder:

- If when the preference shares were originally issued, the company *knew* that the future redemption of these shares would occur or that the redemption would not be at the option of the company, then at the time of the issue, the company had created an obligation for itself. The issue of such shares is therefore recorded as a liability and not as equity.
- If, on the other hand, the preference shares could be redeemed in the future but such a redemption would be at the *option* of the company, then there is no obligation at the time of issue and therefore such preference shares are recognised as equity.

3.6.1 Capital maintenance

When redeeming shares, both the capital and the company's cash reserves are reduced thus putting the other remaining shareholders and creditors at risk. Please note that although redeemable preference shares may possibly be recognised as a liability in the financial statements, from a legal point of view, these are regarded as share capital. For this reason, some countries restrict how the preference shares may be redeemed in order to ensure the maintenance of capital:

- the redemption may only be made using:
  - distributable profits which would otherwise have been made available for dividends,
  - the proceeds of a fresh issue of shares made for that purpose; or
  - sale proceeds of any property of the company
- where the redemption is made out of distributable reserves (i.e. not from a fresh issue of shares), a transfer must be made from profits to a 'capital redemption reserve fund' equal to the amount applied in redeeming the shares.
- This 'capital redemption reserve fund', being a statutory *non*-distributable reserve, is created in order to counteract the risk to creditors caused by the reduction in the share capital.

Example 11: redemption of preference shares and capital maintenance

A company is to redeem its preference shares at their par value and to utilise its balance of retained earnings as far as possible except to ensure that a balance of C5 000 is left therein. The following information is relevant:

- 100 000 C3 ordinary shares issued are in issue (issued at C3.50 each)
- 100 000 C2 10% cumulative, redeemable preference shares are in issue
- The balance of retained earnings on the date of redemption is C80 000.

Required:
Advise the company as to what needs to be done and show the required journals.

Solution example 11: redemption of preference shares and capital maintenance

The redemption may only be made out of (a) profits that would otherwise be available for distribution as dividends or (b) out of a fresh issue of shares. The company prefers to use the retained earnings account for this purpose although requiring a balance of C5 000 to remain after redemption. Since there are insufficient profits, the company will also need to issue shares to make up the balance of the par value redeemed. This extra capital that must be raised is calculated as follows:

Calculation: extra capital to be raised		**C**
Par value of preference shares to be redeemed	*100 000 x C2*	200 000
Retained earnings to be used (C80 000 – C5 000)		(75 000)
Proceeds from a fresh issue of shares required		125 000

The *number* of shares to be issued depends entirely on the issue price of the shares. For example, if the company were to issue more ordinary shares with a par value of C3 at an issue price of C4, a further 31 250 ordinary shares would need to be issued (C125 000/ C4).

The journal entry that would be required is as follows:

	Debit	**Credit**
Bank	125 000	
Ordinary share capital (31 250 x C3)		93 750
Share premium (31 250 x (C4 – C3))		31 250
Issue of C3 PV ordinary shares at an issue price of C4 each		

Immediately after the issue of the new shares and the redemption of the preference shares, the capital will have been reduced as follows:

	Was	**Is**	**Difference**
	C	**C**	**C**
Preference share capital	200 000	0	(200 000)
Ordinary share capital (100 000 x C3) + (31 250 x C3)	300 000	393 750	93 750
Share premium (100 000 x 0.50) + (31 250 x C1)	50 000	81 250	31 250
Net decrease – a transfer to CRRF is required in order to maintain the level of capital at C550 000	550 000	475 000	(75 000)

Notice that the net decrease of C75 000 is because the company opted to utilise the retained earnings account to this extent instead of issuing more shares to this value. Utilising the retained earnings account requires a transfer to the CRRF of the amount of 'profits used': C75 000. This fund will be treated as capital if the need arises although it is treated as a 'non-distributable reserve' for accounting purposes.

The following 'capital maintenance' journal is therefore required:

	Debit	**Credit**
Retained earnings	75 000	
Capital redemption reserve fund		75 000
Transfer to CRRF sufficient to restore the legal capital after redemption of the preference shares		

The 'actual redemption' of the preference shares is journalised as follows (assuming that the preference shares had originally been treated as a *liability*):

	Debit	**Credit**
Preference shares (Non-current liability)	200 000	
Preference shareholders (Current liability)		200 000
Preference shares to be redeemed		
Preference shareholders (Current liability)	200 000	
Bank		200 000
Preference shareholders paid: redemption of their shares		

The 'actual redemption' of the preference shares is journalised as follows assuming that the preference shares had originally been recognised as *equity*:

	Debit	Credit
Preference shares (Equity)	200 000	
Preference shareholders (Current liability)		200 000
Preference shares to be redeemed		
Preference shareholders (Current liability)	200 000	
Bank		200 000
Preference shareholders paid: redemption of their shares		

3.6.2 Financing of the redemption

How the payment is made is referred to as the *'financing of the redemption'*. When a company makes a fresh issue of shares as part of the *'capital maintenance plan'*, the proceeds of this issue may be used in the *'financing of the redemption'* although it may still be necessary to raise further cash. This is often done via an issue of debentures, the raising of a loan or an overdraft.

Example 12: redemption at par value – share issue dependant on financing

A company is to redeem all of its C2 preference shares at par. The company prefers not to have to issue any further ordinary shares unless absolutely necessary but if such an issue is necessary, these ordinary shares will be issued at C6 each (par value of C1 each). The company has C80 000 in the bank but the directors feel that only C30 000 of this should be used for the redemption. Any further cash required should be acquired via a debenture issue of 10 000 C1 debentures (redeemable after 3 years) at C1 each after which a bank loan of up to C40 000 (repayable after 4 years) may be raised.
There is a balance of C150 000 in the retained earnings account.

Required:
For each of the scenarios listed below:
i) Calculate the number of ordinary shares that would need to be issued in terms of the *financing* of the redemption and calculate the amount that would need to be transferred to the capital redemption reserve fund.
ii) Show all related journal entries.

Scenario A: there are 10 000 preference shares to be redeemed
Scenario B: there are 35 000 preference shares to be redeemed
Scenario C: there are 70 000 preference shares to be redeemed

Solution to example 12: redemption at par value – share issue dependant on financing

Part i): Calculations

The financing plan		**Scenarios** **A: 10 000 pref shares**	**B: 40 000 pref shares**	**C: 70 000 pref shares**
Need for the redemption of preference shares	*A: 10 000 x 2; B: 35 000 x 2 C: 70 000 x 2*	20 000	70 000	140 000
Cash available through:				
- cash in bank	*given*	(30 000)	(30 000)	(30 000)
- new debenture issue	*10 000 x 1*	(0)	(10 000)	(10 000)
- new bank loan	*balancing up to 40 000*	(0)	(30 000)	(40 000)
- new share issue	*balancing*	(0)	(0)	(60 000)
Cash shortage/ (surplus)		(10 000)	0	0

Part i): Calculations continued …

The capital maintenance plan

		Scenarios		
		A: 10 000 pref shares	**B: 40 000 pref shares**	**C: 70 000 pref shares**
Redemption of preference shares at par value	*A: 10 000 x 2; B: 35 000 x 2 C: 70 000 x 2*	20 000	70 000	140 000
Less new share issue at issue price	*See financing plan*	(0)	(0)	(60 000)
Capital redemption reserve fund to be created		20 000	70 000	80 000

Please note: since the number of ordinary shares to be issued is not stipulated but is to be determined after calculating the amount of cash required, the 'financing plan' calculation is performed first and is followed by the 'capital maintenance plan' calculation.

Part ii): Journals

	Scenarios					
	A		**B**		**C**	
	Debit	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**
Preference shares (non-current liability)	20 000		70 000		140 000	
Preference shareholders (current liability)		20 000		70 000		140 000
Preference shares to be redeemed A: 10 000 x 2; B: 35 000 x 2; C: 70 000 x 2						
Bank	N/A		10 000		10 000	
Debentures		N/A		10 000		10 000
Issue of debentures A: N/A; B: 10 000 x 1; C: 10 000 x 1						
Bank	N/A		30 000		40 000	
Loan		N/A		30 000		40 000
Loan raised						
Bank	N/A		N/A		60 000	
Ordinary share capital		N/A		N/A		10 000
Share premium		N/A		N/A		50 000
C only: Issue of ordinary shares (PV of 1): 60 000 cash / 6 issue price = 10 000 shares Par value: 10 000 x 1 = 10 000; Premium: 10 000 x (6 - 1) = 50 000						
Preference shareholders (current liability)	20 000		70 000		140 000	
Bank		20 000		70 000		140 000
Preference shares redeemed						
Retained earnings	20 000		70 000		80 000	
Capital redemption reserve fund		20 000		70 000		80 000
Transfer : capital maintenance						

Example 13: redemption at par value – share issue not dependant on financing

A company is to redeem all of its 20 000 preference shares (having a par value of C2) at their par value. The company will fund this out of a new share issue of 10 000 ordinary shares (having a par value of C2 each). The rest of the redemption payment must be funded by raising a bank loan.

Required:
For each of the scenarios listed below:

i) Calculate the cash required in terms of the *financing* of the redemption and calculate the amount that would need to be transferred to the capital redemption reserve fund.
ii) Show all related journal entries.

Scenario A: the ordinary shares are to be issued at C4 each
Scenario B: the ordinary shares are to be issued at C3 each

Solution to example 13: redemption at par value – share issue not dependant on financing

Part i): Calculations		**Scenarios**	
		A:	**B:**
The financing plan		**Issue price C4**	**Issue price C3**
Need to redeem preference shares	*20 000 x 2*	40 000	40 000
Cash available through:			
- new share issue	*A: 10 000 x 4; B: 10 000 x 3*	(40 000)	(30 000)
- new bank loan needed	*balancing*	(0)	(10 000)
Cash shortage/ (surplus)		0	0
The capital maintenance plan			
Redeem preference shares at par	*20 000 x 2*	40 000	40 000
Less new share issue at issue price	*A: 10 000 x 4; B: 10 000 x 3*	(40 000)	(30 000)
Capital redemption reserve fund to be created		0	10 000

Since the number of ordinary shares to be issued was given, the capital maintenance calculation did not depend on the financing plan of the company. The capital maintenance plan calculation could therefore have been done before doing the financing plan calculation.

Part ii): Journals	**Scenarios**			
	A		**B**	
	Debit	**Credit**	**Debit**	**Credit**
Preference shares (non-current liability)	40 000		40 000	
Preference shareholders (current liability)		40 000		40 000
Preference shares to be redeemed: 20 000 x 2				
Bank	40 000		30 000	
Ordinary share capital		20 000		20 000
Share premium		20 000		10 000
Issue of ordinary shares: *Par value: 10 000 x 2 = 20 000;* *A: Premium: 10 000 x (4 - 2) = 20 000* *B: Premium: 10 000 x (3 - 2) = 10 000*				
Bank	N/A		10 000	
Loan		N/A		10 000
Loan raised				
Preference shareholders (current liability)	40 000		40 000	
Bank		40 000		40 000
Preference shares redeemed				
Retained earnings	N/A		10 000	
Capital redemption reserve fund		N/A		10 000
capital maintenance				

3.6.3 Redemption at a premium

A redemption that requires a company to pay the preference shareholder an amount in excess of its *par value* is referred to as a redemption at a premium. The premium payable must be set off against either the profits of the company or the share premium account.

Example 14: redemption at a premium – preference shares were recognised as equity

A company is to redeem all of its 20 000 preference shares (having a par value of C2) at C3 each (i.e. at a premium). The company will fund this out of a new share issue of 10 000 ordinary shares (having a par value of C2 each). The rest of the redemption payment must be funded by raising a bank loan. These preference shares were being redeemed at the option of the company and had therefore been recognised as equity.

Required:
For each of the scenarios listed below:
i) Calculate the cash required in terms of the *financing* of the redemption and calculate the amount that would need to be transferred to the capital redemption reserve fund.
ii) Show all related journal entries.

Scenario A: the ordinary shares are to be issued at C4 each
Scenario B: the ordinary shares are to be issued at C3 each

Solution to example 14: redemption at a premium – preference shares were equity

Part i): Calculations		**Scenarios**	
		A: Issue price C4	**B: Issue price C3**
The financing plan			
Need to redeem preference shares	*20 000 x 3*	60 000	60 000
Cash available through:			
- new share issue	*A: 10 000 x 4* *B: 10 000 x 3*	(40 000)	(30 000)
- new bank loan needed	*balancing*	(20 000)	(30 000)
Cash shortage/ (surplus)		0	0
The capital maintenance plan			
Redeem preference shares at par	*20 000 x 2*	40 000	40 000
Less new share issue at issue price	*A: 10 000 x 4* *B: 10 000 x 3*	(40 000)	(30 000)
Capital redemption reserve fund to be created		0	10 000

Since the number of ordinary shares to be issued was given, the capital maintenance calculation did not depend on the financing plan of the company. The capital maintenance plan calculation could therefore have been done before doing the financing plan calculation.

Please also note that the only difference between this example and the previous example is that the company needs more cash than previously (needing C60 000 instead of C40 000) and thus this changes the financing plan.

Part ii): Journals

	Scenarios			
	A		B	
	Debit	**Credit**	**Debit**	**Credit**
Preference shares (non-current liability)	40 000		40 000	
Share premium/ retained earnings	20 000		20 000	
Preference shareholders (current liability)		60 000		60 000
Preference shares to be redeemed:				
20 000 x 2 + premium 20 000 x 1 = 60 000				
Bank	40 000		30 000	
Ordinary share capital		20 000		20 000
Share premium		20 000		10 000
Issue of ordinary shares:				
Par value: 10 000 x 2 = 20 000;				
A: Premium: 10 000 x (4 - 2) = 20 000				
B: Premium: 10 000 x (3 - 2) = 10 000				
Bank	20 000		30 000	
Loan		20 000		30 000
Loan raised				
Preference shareholders (current liability)	60 000		60 000	
Bank		60 000		60 000
Preference shares redeemed				
Retained earnings	N/A		10 000	
Capital redemption reserve fund		N/A		10 000
capital maintenance				

Example 15: redemption at a premium – preference shares were recognised as a liability

On 1 January 20X1 a company issued 50 000 10% cumulative, redeemable preference shares of C2 each, which must be redeemed on 31 December 20X6 at a premium of C0.20 per share. The effective rate of interest paid is calculated to be 11,25563551%. The company also has 100 000 issued ordinary C3 PV shares (issued at C3.50 each). There are 120 000 authorised ordinary shares and 100 000 authorised preference shares.

Required:

A. Calculate and show the journal entries in respect of the redemption and any capital maintenance entries that may be required. Assume that the company issues the rest of the authorised ordinary shares at C4 each to facilitate both the maintenance of the capital and the financing of the payment. The balance of the retained earnings is C200 000 immediately before the redemption. Any balance of the payment still requiring financing after taking into account the proceeds on the share issue, will be paid for via C20 000 currently available cash in bank and lastly via the raising of a bank overdraft. The premium on redemption is to be set-off against profits.

B. Disclose the ordinary and preference shares in the financial statements for 20X6 (the year of redemption). The statement of changes in equity is only required for 20X6.

Solution example 15A: redemption at a premium –shares were recognised as a liability

The redemption may only be made out of profits that would otherwise be available for distribution as dividends or out of a fresh issue of shares. The company is going to make a fresh issue of shares and utilise the retained earnings account for any balance. This means that the company may need to make a transfer to the capital redemption reserve fund.

Please note: *Detailed calculations of the balance on the 'redeemable preference share' account over the years are shown in example 4.*

Calculations

The financing plan		**C**
Need for the redemption of preference shares	*50 000 x (2 + 0.2)*	110 000
Cash available through:		
- new share issue	*20 000 x 4*	(80 000)
- cash in bank	*given*	(20 000)
- bank overdraft utilised	*balancing*	(10 000)
Cash shortage/ (surplus)		0

The capital maintenance plan		**C**
Redemption of preference shares at par value	*50 000 x 2*	100 000
Less new share issue at issue price	*(120 000 – 100 000) x C4*	80 000
Capital redemption reserve fund to be created out of profits		20 000

Please note *that since the number of shares to be issued was stipulated and was not dependent on the financing plan, the capital maintenance plan could be calculated before the financing plan if preferred.*

Please also note *that, although the preference shares are recognised as a liability in the financial records, the CompaniesOrdinancet still considers it to be 'share capital'. Therefore, the 'share capital' before and after redemption appear as follows from this perspective:*

		Was **C**	**Is** **C**	**Difference** **C**
Preference share capital		100 000	0	(100 000)
Ordinary share capital	*(100 000 x 3) + (20 000 x 3)*	300 000	360 000	60 000
Share premium	*(100 000 x (3,50 - 3)) + (20 000 x (4-3))*	50 000	70 000	20 000
Net decrease – a transfer to CRRF is required in order to maintain the previous level of capital at C450 000		450 000	430 000	(20 000)

The net decrease is because the company opted to utilise C20 000 of the retained earnings rather than issuing more shares to this value. Utilising the retained earnings account requires a transfer to the Capital Redemption Reserve Fund of the amount of profits 'used': C20 000. This fund will be treated as capital if the need arises although it is considered to be a 'non-distributable reserve' for accounting purposes.

Journal entries	**Debit**	**Credit**
Bank	80 000	
Ordinary share capital (20 000 x C3 par value)		60 000
Share premium (20 000 x C1 premium)		20 000
Issue of 20 000 C3 PV ordinary shares at an issue price of C4 each		
Retained earnings	20 000	
Capital redemption reserve fund		20 000
Capital maintenance: transfer sufficient earnings to CRRF to restore the legal capital after redemption of the preference shares		

Journal entries continued …	Debit	Credit
Preference shares (non-current liability) (50 000 x C2)	100 000	
Premium accrued (50 000 x C0.20) or (7 860 + 2 140: see example 4)	10 000	
Preference shareholders (current liability)		110 000
Preference shares to be redeemed (see workings in example 4)		
Preference shareholders (current liability)	110 000	
Bank (20 000 + 80 000 cash raised through the issue)		100 000
Bank overdraft		10 000
Redemption of shares - payment to preference shareholders		

The company has chosen to set the premium payable on redemption off against the retained earnings: no journal entry is required to set the premium off against retained earnings. This is because the preference shares were recognised as a liability with the result that both the premium payable on redemption and the preference dividends have already been included in finance charges (an expense) over the life of the preference shares. The premium has therefore already reduced the profits.

If the company wanted the premium to be set-off against the 'share premium account' instead, it would need to pass a journal entry debiting the 'share premium account' and crediting the 'retained earnings account', as follows:

	Debit	Credit
Share premium	10 000	
Retained earnings		10 000
Reversing the effect of the finance charges (premium on redemption) on the retained earnings to the share premium account		

Solution example 15B: redemption at a premium –shares were recognised as a liability

Company name
Statement of financial position (extracts)

As at 31 December 20X6	**Note**	**20X6**	**20X5**	**20X4**	**20X3**	**20X2**	**20X1**
		C	**C**	**C**	**C**	**C**	**C**
Share capital and reserves							
- ordinary share capital	3	360 000	300 000	300 000	300 000	300 000	300 000
- share premium	3	70 000	50 000	50 000	50 000	50 000	50 000
Non-current liabilities							
- redeemable preference shares	4	0	0	105 936	104 207	102 653	101 256
Current liabilities							
- redeemable preference shares	4	0	107 860	0	0	0	0

Please note: The figures for the years 20X1 – 20X4 are not required and are given for explanatory purposes only.

Notice how the redeemable preference share liability gradually increases over the years until the date of redemption arrives. On the date of redemption, the balance of the 'redeemable preference share liability' account will have grown to C110 000, just before the preference shares are redeemed and the account is reduced to zero:

Movement on the preference share liability account	**C**
Opening balance – 20X6	*107 860*
Premium accrued (see example 4)	*2 140*
Balance immediately before redemption	*110 000*
Redemption (debit preference shares and credit bank)	*(110 000)*
	0

Detailed calculations of the balance on the 'redeemable preference share' account over the years may be revised in example 4.

Company name
Statement of comprehensive income (extracts)
For the year ended 31 December 20X6

	20X6 C	20X5 C	20X4 C	20X3 C	20X2 C	20X1 C
Profit before finance charges	xxx	xxx	xxx	xxx	xxx	xxx
Finance charges	12 140	11 924	11 729	11 554	11 397	11 256
Profit before tax	xxx	xxx	xxx	xxx	xxx	xxx
Tax expense	xxx	xxx	xxx	xxx	xxx	xxx
Profit for the year	xxx	xxx	xxx	xxx	xxx	xxx
Other comprehensive income	xxx	xxx	xxx	xxx	xxx	xxx
Total comprehensive income	xxx	xxx	xxx	xxx	xxx	xxx

Company name
Statement of changes in equity
For the year ended …20X6

	Ordinary share capital C	Share premium C	Capital redemption reserve fund C	Retained earnings C	Total C
Opening balance	300 000	50 000	0	xxx	xxx
Ordinary shares issued	60 000	20 000			80 000
Transfer to capital redemption reserve fund			20 000	(20 000)	0
Total comprehensive income				xxx	xxx
Closing balance	360 000	70 000	20 000	xxx	xxx

Please note that the preference shares and the redemption thereof do not appear in the statement of changes in equity since they appear in the statement of financial position as a liability instead.

Company name
Notes to the financial statements (extracts)
For the year ended 31 December 20X6

2. Accounting policies

2.5 Preference shares

Redeemable preference shares, which are redeemable on a specific date or at the option of the shareholder are recognised as liabilities, as the substance thereof is ‘borrowings’. The dividends on such preference shares are recognised in the statement of comprehensive income as finance charges using the effective interest rate method.

3. Ordinary share capital	**20X6** **Number**	**20X5** **Number**
Authorised:		
120 000 ordinary shares of C3 each		
Issued:		
Shares in issue at the beginning of the year	100 000	xxx
Issued during the year	20 000	xxx
Shares in issue at year-end	120 000	100 000

Please note: No shares were issued to any director or member of his immediate family, therefore no details thereof are required. The par value of the shares issued, the share premium and the consideration received (the total of the par value and the share premium) is disclosed in the

statement of changes in equity. Any preliminary expenses, commission and expenses caused by the issue that may have been charged against the share premium account (if par value) or stated capital account (if no par value) would also be disclosed in the statement of changes in equity.

4. Redeemable preference shares

Authorised:
100 000 10% redeemable preference shares of C2 each

Issued:	**20X6** **C**	**20X5** **C**	**20X4** **C**	**20X3** **C**	**20X2** **C**	**20X1** **C**
Issued 50 000 10% redeemable preference shares of C2 each	100 000	100 000	100 000	100 000	100 000	100 000
Premium accrued to date	10 000	7 860	5 936	4 207	2 653	1 256
Redeemed during the year	(110 000)					
Balance at year-end	0	107 860	105 936	104 207	102 653	101 256

The redeemable preference shares were compulsorily redeemable on 31 December 20X6 at a premium of C0.20 per share. The 10% preference dividends were cumulative. The effective interest rate is 11,25563551%.

Please note: No shares were issued to any director or member of his immediate family, therefore no details thereof are required.

4. Summary: