POLITEKNIK MALAYSIA

KEMENTERIAN PENDIDIKAN TINGGI
JABATAN PENDIDIKAN POLITEKNIK DAN KOLEJ KOMUNITI

KOLEJ KOMUNITI MALAYSIA

CORPORATE EQUITY

HARYATI BINTI HAMID
HARYANI BINTI HAMID
CHARANJEET KAUR A/P AMTAR SINGH

CORPORATE EQUITY

1.0 SHARES – HARYANI BINTI HAMID
2.0 DIVIDEND – HARYATI BINTI HAMID
3.0 DEBENTURE & CHARGE – CHARANJEET KAUR A/P AMTAR SINGH

Corporate Equity
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Preface

The legal foundations governing equity within corporations are examined in detail in this section of the e-book, Corporate Equity in Company Law. It offers a concise and useful explanation of important equity-related ideas, including share capital, share kinds, shareholder rights, equity financing, and corporate restructuring, and is geared for diploma polytechnic students. The course material is intended to assist students in comprehending the legal rights associated with various share classes, how businesses generate money through equity, and the duties of shareholders in corporate governance. This chapter also examines the regulations pertaining to the issue of new shares and dividend distribution, using real-world case studies to demonstrate these ideas in action. Students will be well-prepared for both academic exams and real-world business applications by the end of this module, having gained a solid understanding of the function of equity in corporate finance and its influence on the management and expansion of businesses.

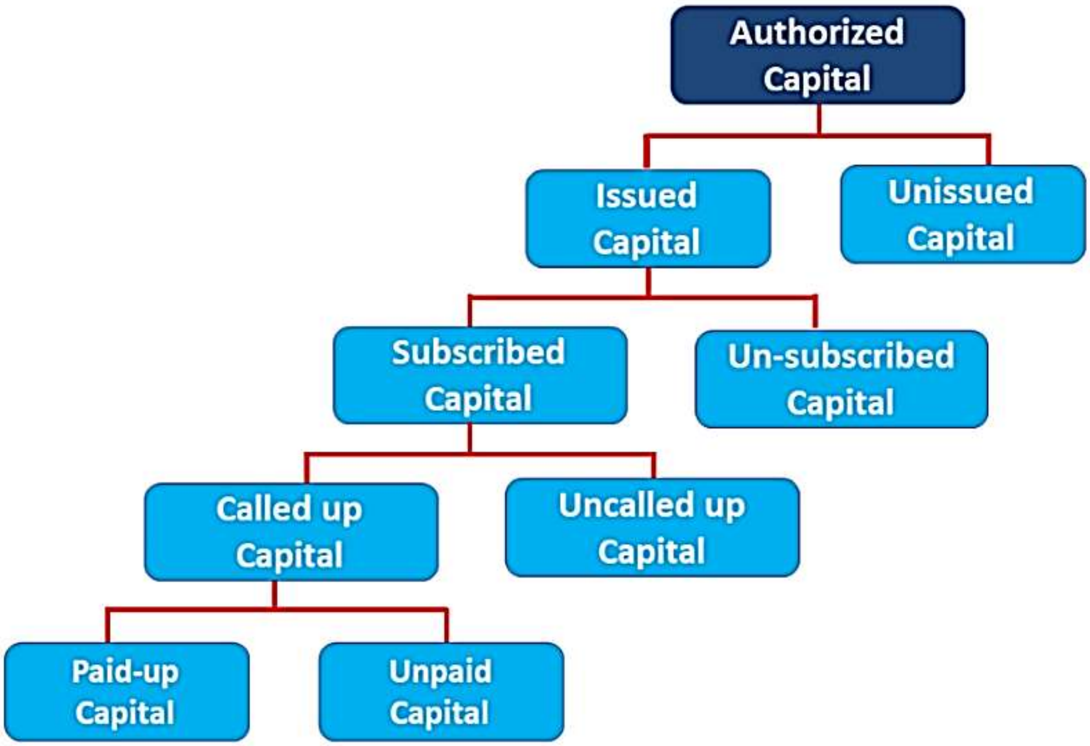
Contents

1.0 SHARE CAPITAL

1.1 DEFINITION OF SHARE CAPITAL

The amount of money the owners of a company have invested in the business as represented by common and/or preferred shares. The other name for share capital are shareholders' capital, equity capital, contributed capital, or paid-in capital or the amount invested by a company's shareholders for use in the business.

1.2 TYPE OF SHARE CAPITAL



1.2.1 Authorized share capital

By definition, authorized share capital refers to the maximum amount of the capital of the shareholders that the company is authorized to issue as per its constitutional/legal documents. Before a company is established, it has to specify the total amount of equity it wants to raise. It must also determine the base value of this share which is also known as value per. There are no specific limits for the companies on the number of shares they can issue in total. The

1.2.2 Issued share capital

Another primary type of share capital is issued share capital or issued shares. Issued shares refer to the total value of shares the company chooses to sell to shareholders or investors. However, one must remember that the par value of issued shares cannot exceed the value of the authorized share of that company. The process of issuing shares to the public or private investors is simple. The portion of the shareholders' capital that the company has issued is circulated and held by shareholders of the private and public domains. The company shares or sells issued stocks with the promise to pay in full at a later date.

1.2.3 Unissued share capital

The remaining portion not yet offred to the public for subscription which can be issued later on

1.2.4 Subscribed share capital

Such part of the capital which is for the time being subscribed by the members of a company. The portion of nominal value of the issued share capital which is actually paid (or subscribed) by the shareholders form part of the subscribed capital

1.2.5 Unsubscribed share capital

The balance of issued share capital not subscribed for by the public is called the unsubscribed share capital

1.2.6 Called-up share capital

The sum amount of issue capital that shareholders are required to pay is called up capital. Part of subscribed capital, called-up capital is the amount that a company calls upon shareholders to pay. This is not necessarily the entire subscribed amount; companies may call up only a portion of the subscribed capital at different intervals.

1.2.7 Uncalled-up share capital

The remaining amount of called-up share capital is uncalled-up capital. Uncalled-up capital is the portion of subscribed capital that a company has not yet called up. It represents a contingent liability of shareholders on their shares, indicating the potential future financial obligations they may have to meet.

1.2.8 Paid-up share capital

Paid-up capital generally refers to the portion of the subscribed share that the investors have paid. So, this type of share capital represents the actual amount of money that the company has received through the exchange of the issued share. Paid-up share capital plays a crucial role in the company's financial structure. It is because this type of share capital refers to the actual equity investment made by the shareholders or investors. Also, it plays a pivotal role in determining creditworthiness, financial stability, and investors' confidence in the company.

1.2.9 Unpaid-up share capital

It is a part of the called up share capital which has been called but has not been paid by the shareholder (for example : call-in-arrears)

EXERCISE

1. What is the meaning of "authorized share capital"?

a. The total value of shares that a company can legally issue

b. The shares that have been issued to shareholders

c. The amount paid by shareholders for their shares

d. The profit earned by the company from its shares

2. Which of the following is a characteristic of "issued share capital"?

a. Shares that are authorized but not yet issued

b. Shares that have been sold to shareholders

c. The total number of shares a company can issue

d. The total number of shares repurchased by the company

3. Which of the following is NOT a type of share capital?

a. Authorized share capital

b. Issued share capital

c. Loan share capital

d. Paid-up share capital

4. How is paid-up share capital different from issued share capital?

a. Paid-up share capital is the actual money received from shareholders

b. Paid-up share capital is the total shares a company plans to issue

c. Paid-up share capital includes loans taken by the company

d. Paid-up share capital is only applicable to private companies

5. What does "paid-up share capital" refer to?

a. The total value of shares authorized

b. The amount paid by shareholders for shares issued

c. The profit earned by the company after issuing shares

d. The shares that can be redeemed at a future date

ANSWER

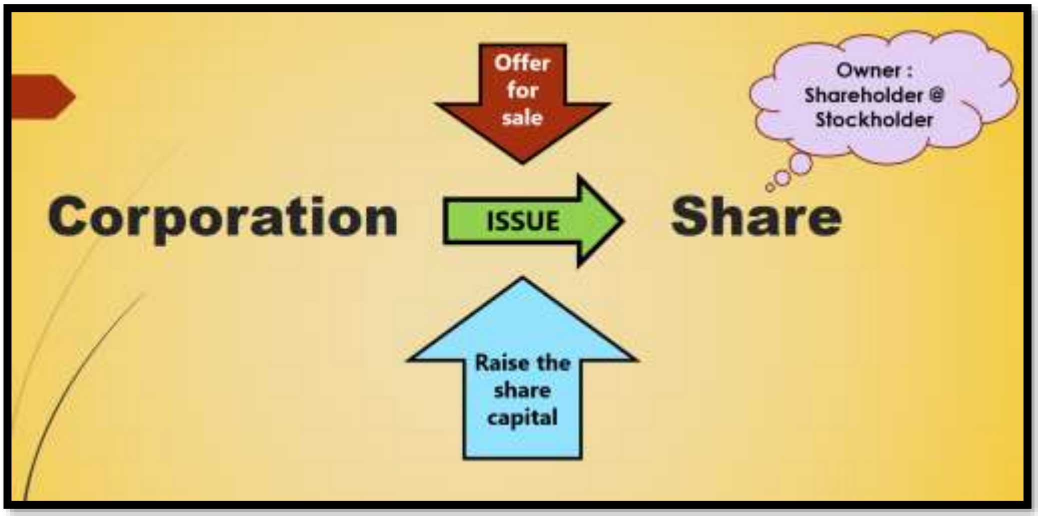
1. a
2. b
3. c
4. a
5. b

1.2 SHARE

1.2.1 DEFINITION OF SHARE

A **share** refers to a unit of ownership in a company or corporation. When individuals or entities purchase shares of a company, they become shareholders and hold a proportional stake in the ownership and assets of that company. Shares can be bought and sold in financial markets, allowing investors to trade ownership in companies.

Shareholders have the right to participate in the company's profits through dividends and capital appreciation. They also have certain voting rights and may attend shareholder meetings.



1.2.2 CHARACTERISTIC OF SHARE

(i) Ownership stake

Shareholders own a portion of the company's asset and earnings

(ii) Dividends

Shareholders receive a share of the company's profit as dividends

(iii) Voting rights

Shareholders can vote on important company decisions

(iv) Capital gains

Shareholders benefit from the appreciation of share value over time

(v) Transferablity

Shares are easily bought and sold on the stock exchange

(vi) Risk and return

Share carry risks but also offer potential for higher returns compared to conservative investment

1.2.3 SHAREHOLDERS' MAIN RIGHTS

(i) Voting power on major issues.

Voting power includes electing directors and proposals for fundamental changes affecting the company such as mergers or liquidation. Voting takes place at the company's annual meeting. If the shareholder cannot attend, they can do so by proxy and mail in their vote.

(ii) Ownership in a portion of the company.

When a business thrives, common shareholders own a piece of something that has value. Usually, the better a company performs and the brighter its outlook, the higher its valuation rises and the price that each share of ownership fetches. So, if you own a stake in a company that keeps growing profits, your slice of ownership should grow in value and be worth more than what you initially paid.

(iii) The right to transfer ownership.

The right to transfer ownership means shareholders are allowed to trade their stock on an exchange. The right to transfer ownership might seem mundane, but the liquidity provided by stock exchanges is important. Liquidity—the degree to which an asset or security can be quickly bought or sold in the market without affecting its price—is one of the key factors that differentiates stocks from an investment such as real estate. If an investor owns the property, it can take months to convert that investment into cash. Because stocks are so liquid, investors can move their money into other places almost instantaneously.

(iv) Entitlement to dividends.

Capital appreciation isn't the only way common shareholders make money. They also may receive periodic cash payments from the company they're invested in. Management of a company essentially has two options with profits: they can be reinvested back into the firm or paid out in the form of a dividend. Investors do not have a say as to what percentage of profits should be paid out—the board of directors decides this. However, whenever dividends are declared, common shareholders are entitled to receive their share.

1.2.4 TYPES OF SHARE

Ordinary Shares

Ordinary shares are the most common type of share. They typically carry voting rights but do not give shareholders the right to receive or demand dividends. Ordinary shareholders also receive less dividends compared to shareholders who hold preference shares. Companies may divide their ordinary shares into different classes (e.g. “A” and “B”) with different rights attached to each class.

Preference Shares

Preference shares confer certain preferential rights on the holder, which are superior to those of ordinary shares. Typically, these preferential rights include the right to fixed dividends, priority in receiving dividends over ordinary shareholders, and priority in the return of capital if the company goes into liquidation.

EXERCISE

1. What is a key characteristic of an ordinary share?

a. Fixed dividend rate

b. Voting rights in company meetings

c. Priority in receiving dividends

d. Guaranteed return on investment

2. Which type of share typically does not have voting rights?

a. Common shares

b. Preferred shares

c. Convertible shares

d. Treasury shares

3. Which of the following is a feature of preference shares?

a. They have no voting rights

b. They have variable dividend rates

c. They are traded on the stock exchange

d. They are issued at a discount

4. How do preference shareholders differ from ordinary shareholders in terms of dividends?

a. Receive dividends after ordinary shareholders

b. Have a guaranteed dividend rate

c. Receive dividends only if the company profits

d. Share dividends equally with ordinary shareholders

5. What advantage do preference shareholders typically have over ordinary shareholders?

a. Higher voting power

b. Priority in asset distribution upon liquidation

c. Ability to convert shares into bonds

d. Exemption from taxes

ANSWER

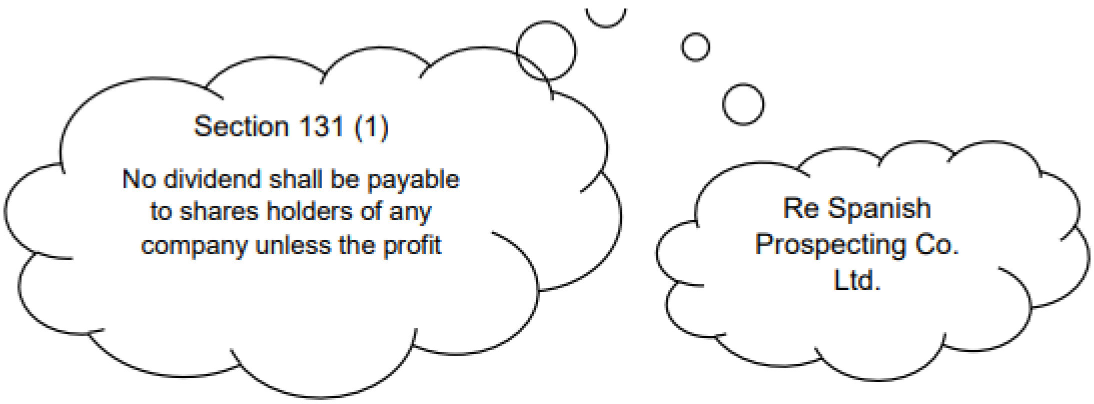
1. b
2. b
3. a
4. b
5. b

2.0 DIVIDENDS

2.1 WHAT IS DIVIDENDS ???

A dividend is a payment that a company makes to its shareholders. When a company earns a profit, it can choose to reinvest that money back into the business or distribute a portion of it to the owners, which are the shareholders. The amount of money paid out to each shareholder is called the dividend. Dividends are usually paid out on a regular basis, such as quarterly or annually. The size of the dividend depends on the company's profits and how the board of directors decides to allocate those profits. Dividends provide a way for shareholders to receive a return on their investment in the company.

The board of directors will consider factors such as the company's current financial condition, future investment needs, and overall market conditions when determining the dividend amount. Dividends provide shareholders with a return on their investment and can be an important source of income, especially for investors seeking steady cash flow. However, not all companies pay dividends, and the dividend policy can vary significantly between different companies and industries.



Dividends are payments made by a company to its shareholders, but did you know that the law requires a company to have profits before it can pay dividends? According to Section 131 (1), "No dividend shall be payable to shareholders of any company unless the profit."

This means that a company must first make a profit before it can distribute that money to its shareholders in the form of dividends. The profit helps ensure the company's financial stability and allows it to reinvest in the business or pay down debt. A company may only make a distribution to the shareholders out of profits of the company available if the company is solvent.

The key points are:

1. Companies can only pay dividends from their available profits.
2. Companies must be solvent (financially stable) in order to pay dividends.
3. This ensures that companies do not pay out dividends if it would make the company financially unstable.

Issues ???

Whether a Company Can Borrow Money to Pay Dividends

The court case of Hilton International Ltd v Hilton (1989)

1. The company's accounts must show that it has **distributable profits**. This means the company has enough profits that can legally be distributed as dividends.
2. Paying the dividends must not cause the company to become **insolvent**. The company must still be able to pay its debts after paying the dividends.

As long as these two conditions are met, the court ruled that the company is allowed to borrow money in order to pay dividends to its shareholders. This provides companies with more flexibility in how they manage their finances and distribute profits.

When should the profit be available? Is it when dividends are announced or paid out?

In Marra Development Ltd v BW Rofe Pty Ltd (1977)

1. Dividends may be paid even though there is no revenue profit so long as the value of one's capital assets increases. A company's policy is to revalue its fixed assets periodically.
2. The assets were worth more than the original purchase, but would only be profits after sale of the properties (if ever). A profit, if only on paper.

EXERCISE

1. Which of the following is NOT a reason for a company to pay dividends?

a. To reward shareholders

b. To decrease the company's stock price

c. To share profits with owners

d. To attract more investors

2. What must a company's accounts show to legally distribute dividends?

a. That the company has enough debts

b. That the company has distributable profits

c. That the company is insolvent

d. That the company has borrowed money

3. Why is it important for a company not to become insolvent after paying dividends?

a. To increase its fixed assets

b. To ensure it can still pay its debts

c. To allow borrowing money

d. To satisfy shareholders

4. In Marra Development Ltd v BW Rofe Pty Ltd, what condition allows dividends to be paid without revenue profit?

a. Increase in debts

b. Increase in capital assets value

c. Decrease in liabilities

d. Decrease in fixed assets value

5. When should profits be available for dividends according to the case of Hilton International Ltd v Hilton?

a. When dividends are announced

b. When dividends are paid out

c. When the company is insolvent

d. When the assets are sold

ANSWER

1. B
2. B
3. B
4. B
5. A

2.2 TYPES OF DIVIDENDS

2.2.1 INTERIM DIVIDEND

- ✓ Declared by the board of directors when they are confident in the company's financial position

  Dividends are payments made by a company to its shareholders. The company's board of directors decides when to pay dividends, usually when they are confident the company is in a strong financial position. This allows the company to share its profits with the people who own shares in the business.

- ✓ Declared by the board of directors.

  The board of directors of a company decides to distribute a portion of the company's profits to its shareholders. This payment allows shareholders to receive a share of the company's success. The board carefully considers factors such as the company's financial performance, future investment needs, and shareholder expectations when determining the appropriate amount of the dividend. This distribution of profits is an important way for companies to reward their investors and maintain positive relationships with the shareholder community.

- ✓ Paid before or as at the financial year end, or before the Annual General Meeting (AGM).
- ✓ Not a company's liability towards shareholders
- ✓ Directors can cancel the dividend before payment if the company's financial position changes after the dividend declaration.

  Directors may cancel a declared dividend payment if the company's financial situation changes after the dividend was announced. This allows the directors to adjust the dividend decision if the company's financial position becomes less stable or favorable after the initial declaration.

2.2.2 FINAL DIVIDEND

- ✓ Declaration is made after the profits is gained for one accounting year ends.
- ✓ Once declared, the dividend becomes a liability of the company towards its shareholders.

  Once a company declares a dividend, it becomes a liability that the company owes to its shareholders. The company now has an obligation to pay the declared dividend amount to the shareholders who own the company's stock. This means the company must set aside the funds needed to make the dividend payments, as the shareholders have a right to receive this money from the company.

- ✓ Shareholders can generally force the company to pay the declared dividend.

  A company's shareholders are its owners. They have the authority to mandate that the business distribute the declared dividend—the amount of profits allocated to shareholders.

This means that instead of keeping all of the profits in the business, the shareholders can insist that the corporation pay them the dividend that was promised.

EXERCISE

UNDERSTANDING INTERIM AND FINAL DIVIDENDS

1. What is an interim dividend?

a. A dividend declared after the financial year ends

b. A dividend paid before or as at the financial year end

c. A type of tax deduction

d. A company's liability towards shareholders

2. When does a final dividend become a liability for the company?

a. Before it is declared

b. After it is declared

c. During the financial planning stage

d. When the board of directors decides

3. Can directors cancel an interim dividend after it is declared?

a. No, it is illegal

b. Yes, if the financial position changes

c. Only with shareholder approval

d. Only if profits are higher than expected

4. What is a key difference between interim and final dividends?

a. Interim dividends are always larger

b. Final dividends are declared before the financial year ends

c. Interim dividends can be canceled before payment

d. Final dividends are paid before the AGM

5. What happens if the company's financial position changes after declaring an interim dividend?

a. The dividend must still be paid

b. The dividend can be canceled

c. The dividend becomes a final dividend

d. The dividend amount increases

ANSWER

1. B
2. B
3. B
4. C
5. B

2.2.3 CUMULATIVE DIVIDEND

- ✓ Accumulated dividend

- ✓ Total dividend payment for 1 accounting period carry forward or to next year

  The total amount of dividends paid out by a company during one accounting period (such as a year) that is not distributed to shareholders, but instead is saved and carried over to the next accounting period. This allows the company to hold onto those funds for future use, rather than immediately paying them out as dividends. The carried forward dividends can then be distributed to shareholders in the next accounting period, or the company may choose to reinvest the funds back into the business.

2.2.4 NON-CUMULATIVE DIVIDEND

- ✓ Total dividend for 1 accounting period only

- ✓ Cannot bring forward to next accounting period

  Dividend payments cannot be carried forward to the next accounting period. This means that the dividend, which is a portion of a company's profits distributed to its shareholders, must be paid out in the current accounting period and cannot be saved or postponed for the next period. This rule ensures that shareholders receive their entitled dividends in a timely manner and maintains the transparency of the company's financial reporting.

EXERCISE

UNDERSTANDING CUMULATIVE AND NON-CUMULATIVE DIVIDENDS

1. What is a cumulative dividend?

a. A dividend shared with all shareholders

b. A dividend that is paid out immediately

c. A dividend that can be carried forward to the next accounting period

d. A dividend that is never paid out

2. What does a non-cumulative dividend mean?

a. Dividends are carried forward to future periods

b. Dividends must be paid in the current period

c. Dividends are shared equally among all shareholders

d. Dividends are reinvested into the company

3. Which of the following is true about cumulative dividends?

a. They must be paid out in the same accounting period

b. They are shared among employees

c. They can be carried over to the next year

d. They are always paid out in cash

4. Which type of dividend ensures shareholders receive payments in the current period?

a. Deferred dividend

b. Cumulative dividend

c. Non-cumulative dividend

d. Reinvestment dividend

5. In which scenario might a company prefer non-cumulative dividends?

a. When they want to save cash for future investments

b. When they have a steady cash flow

c. When they have inconsistent profits

d. When they aim to delay shareholder payments

ANSWER

1. C
2. B
3. C
4. C
5. B

3.0 DEBENTURES

What is debenture?

- Like a natural person, a company may raise finance by borrowing.
- S21 CA 2016 grant unlimited capacity to a company to do any act to enter into any transaction.
- Debentures refer to a long term debt instrument which is used by large companies as well as government to obtain funds.
- As roughly view, debenture is a document given by a company as evidence of a charge created by the company in return for a loan.
- In the case of ***Levy v Abecorris Slate & Slab Co (1887) 37 Ch D 260, 264*** "… debenture is a document which creates a debt or acknowledges it and any document which fulfils either one of these conditions …".

Debenture is a written instruments or document acknowledging a debt and contains provisions with regard to repayment of principal and payment of interest at fixed rate.

Sec 2 (1), CA 2016
Debenture includes debenture stock, bonds, sukuk, notes and any other securities of a corporation whether constituting a charge on the assets of the corporation or not.

Features of Debentures

- Debentures-holders are entitled to periodical payment of interest at an agreed rate.
- Entitled to redemption of their capital as per the agreed terms.
- No voting rights
- Debentures are secured by charge on or mortgage of the assets of the company
- Debenture holders have the right to sue the company for any unpaid dues.

Feature	Description
Fixed Interest	Debentures pay a **fixed rate of interest** at regular intervals, providing predictable returns.
Security	They can be **secured** against company assets (mortgage debentures) or **unsecured** (simple debentures).
Term	Debentures have a **defined term** or maturity date when the principal amount is repaid.
Transferability	Generally **transferable**, making them a **liquid investment** for investors.
Creditor Status	Debenture holders are **creditors** of the company, enjoying **priority over shareholders** during liquidation.

Types of Debentures

Sole Debenture	**Serial Debenture**
• It is a secured loan from private individuals or financial institutions or banks. • It is also known as single debenture. • A document that ensure loan which made between bank or financial institution with company. • The loan usually guaranteed with fixed charge on company's assets. • Usually repayment may be requested automatically in the event of dissolution of company or other events which caused company fail to explain company debts.	• It is an issue of debt securities or debenture stock in which a loan is raised usually by means of an offer to the public via Bursa Malaysia. It is also known as public debenture. • A debenture that matures in portions over several dates. • The company may divide the principal amount in equal installments over the life of the bonds. • Instead of facing a large lump-sum repayment at maturity, the company opt to spread the principal payment over several periods.

Rights of Debentures Holders

- Technically a debenture holder is a creditor and not a member of the company. However, a debenture holder has more rights compared to ordinary secured or unsecured creditor.
- The holders of debentures are conferred rights under the CA 2016, the common law as well as the debenture instrument.

Rights of Debentures Holders	Explanation of Rights
Audited FS	S257 – requires the company to send a copy of its audited accounts to the debenture holder upon request.
Oppression	S346 – if the affairs of the company are being conducted in a manner which is oppressive to the debenture holders, he may apply to the court for remedy.
Sue for payment	Where the company fails to repay the loan stipulated in the debenture, the debenture holder may take legal action to enforce the company's obligations

Differences between Debenture holder and Shareholder

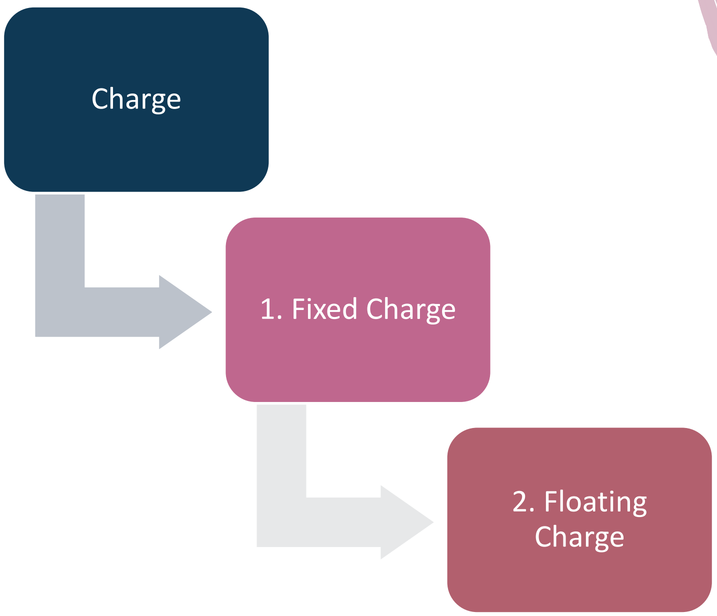
Criteria	Debenture holder	Shareholder
Payment of return	• Interest on debentures is payable regardless whether there are profits or not. • Interest paid out of capital.	• Dividends on shares is to be paid only when the company has earned profits. • Dividend can never be paid out of capital.
Preferences	• Debentures are generally secured and carry a charge on the assets of the company. • As a secured creditor, the debenture holder is paid off before a shareholder in the event of winding up of a company.	• Shares are not secured with any charges on the company's assets. • Shares are repaid after the payment of all the liabilities of the company.

4.0 CHARGES

- A trading company has implied power not only to borrow but to charge its assets as securities.
- In the event the company fails to repay the loan which is secured against the company's assets, the lender has resource against the assets.
- The assets are sold and the proceeds used to settle the loan.
- Furthermore, a company may create a charge over its assets to secure not its own borrowings but that of 3rd party. It is know as 3rd party charge.

Section 2 – include a mortgage and any agreement to give or execute a charge or mortgage whether upon demand or otherwise.

The charge may be legal or equitable, and it includes any security for repayment of a debt.



1.Fixed Charge

- A fixed charge is a charge which attaches to specific assets owned by the company.
- As the fixed charge is attached to the assets, the company cannot deal with the assets unless with the prior consent of the lender.
- If the company were to do so, without the lender's prior consent, the assets continue to be subject to the charge until they are released by the lender.
- **Example;**
  - "Rock & Row Sdn Bhd had created a fixed charge over its machinery to the lender. Rock & Row Sdn Bhd subsequently sold the machinery.
  - In the event of default by Rock & Row Sdn Bhd, the lender can still trace the machine to the buyer, and exercise its power under the charge instrument and sell it."

2. Floating Charge

- A company may also create a floating charge over its present and future assets. A floating charge is a charge on a class of assets e.g. stock in trade
- As the charge "floats" over the assets and does not attach to the assets, the company may continue to deal with the charged assets in its ordinary course of business.
- If the charge is over a class of assets, it will also "float" over assets of that class which are subsequently acquired by the company.

- **Example;**
  - "Car Vroom Bhd deals in used cars. On November 10, 2016, it created a floating charge over its stock in trade in favour of Bank Mesra Bhd.
  - At the time the floating charge was created, Car Vroom Bhd had 40 cars in its stock. Today, there are 75 cars in its stock. As the charge is above the stock in trade, the charge floats over all the assets in that class. Currently, it floats over all 75 cars.
- In summary, the characteristics of a floating charge are as follows:
  - It is a charge usually over a class of assets present and future;
  - The assets may change from time to time in the company's ordinary course of business;
  - Until the charge **crystallizes**, the company can deal with the assets in the ordinary course of its business;
  - On occurrence of certain event, the charge will attach and become fixed.

3. Difference Between Fixed Charge and Floating Charge

Basis of Comparison	Fixed Charge	Floating Charge
1. Meaning	Charge that can be ascertained with a specific asset.	Charge that is created on the assets of a circulatory nature.
2. Nature	Static	Dynamic
3. Registration of Charge	Compulsory	Compulsory
4. Status	A legal charge	An equitable charge
5. Preference	First	Second
6. Asset type	Non-Current Asset	Current Asset
7. Dealing in Asset	The co has no right to deal with the property/asset.	The co can use or deal with assets, until crystallization.

4. Priority of Company Charge

- There are cases where the **same assets** are subject to **2 different charges** in favor of **different lender**. Both charges a valid.
- In the event there is a default by the company, the assets will be sold, and the proceeds used to settle the amounts outstanding under the 2 charges.
- If the proceeds are sufficient to pay both charges, no dispute will arise. However, if the proceeds are insufficient, **who will have the priority** over the proceeds??

General Principles

Floating v Floating

The 1st charge will have priority

Fixed v Fixed

The 1st charge will have priority

Fixed v Floating

The 1st charge is a fixed charge, followed by a floating charge, then the **fixed charge will have priority**

Floating v Fixed

The 1st charge is a floating charge, followed by a fixed charge, then the **fixed charge will have priority**

5. Registration of Company Charges

- To protect the company's creditor and persons dealing with the company, **S352** requires details of charges created by the company to be registered with ROC.
- **S352(1)** provides that the company shall register the details of the charge with ROC within 30 days from is creation.
  - If contravene subsection (1) – the charge is **VIOD**
  - The loan shall immediately be payable
  - Company and every officer liable to a fine not exceeding RM50,000
- The registration is using the form prescribed by the ROC. Among the information required are:

✓ Name of the person entitled to the charge
✓ Amount secured by the charge
✓ Whether there is any prohibition on the creation of subsequent charges

- Date the charge was created
- What assets are charged?
- Whether the charge is a fixed or floating?
- Other salient terms & conditions

6. Company Charge - Prohibition by Companies Act 2016

- S123 – prohibits a company from giving financial assistance including a charge to person to buy its share
- S224 – prohibits a company from giving any security for a loan granted to its director or the director of its related company
- S225 – prohibits a company from giving any security for a loan granted to a person connected with its director or the director of its holding company.

Exercise

1. A business can issue both secured and unsecured debentures. Describe how these two kinds differ from one another and why an investor might favour one over the other.

2. Over a predetermined amount of time, some debentures can be converted into shares, while others cannot. What would be the benefit for investors, and why might a business provide convertible debentures?

3. Determine a debenture holder's rights and responsibilities to those of a company's shareholders. How does each group's amount of risk change in the case of a company's liquidation, and what rights do they have?

4. A company obtains a loan that is backed by a floating charge on its inventory and a fixed charge over its plant. Explain the distinction between a floating charge and a fixed fee. Discuss about what would occur if the business went into liquidation and defaulted on the debt.

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