

✓✓ Note 4: Whilst recognising that it is proposed to offer the 11% debenture holders a 44% shareholding in the new company, it would appear from the above that the loan note holders are not being fairly treated in relation to the shareholders from the capital entitlement viewpoint. This will undoubtedly be raised by the 11% debenture holders and require amendment if it is to obtain the approval of the court.

It is particularly relevant because the 11% debenture holders would, from the figures produced, be in a better position by exercising their right to appoint an administrative receiver.

Income entitlement – 20X3 – 20X6

(see workings below)

	<i>Rights in Aztec plc \$</i>	<i>Rights in Aztec (Europe) assuming a pre-tax profit</i>	
		\$70,000 \$	\$140,000 \$
Equity shareholders	–	5,041	15,153
7% Debenture holders	9,450	16,662	31,828
11% Debenture holders	44,550	36,082	56,304

Workings

Calculating income in Aztec plc at two levels of profit without reorganisation and capital reduction:

		\$	\$	
Profit before tax		70,000	140,000	
Less: 11% debenture interest		(44,550)	(44,550)	
Less: 7% debenture interest		(9,450)	(9,450)	
		<hr/>	<hr/>	
		16,000	86,000	
Tax at 35%		(5,600)	(30,100)	
		<hr/>	<hr/>	
Profit after tax	✓✓	10,400	55,900	✓✓
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Years to eliminate debit balance	✓✓	55 years	10 years	✓✓

For comparison purposes let us assume that there is a distribution without making good the debit balance:

	\$	\$
Profit after tax (as above)	10,400	55,900
All available for equity shareholders	<hr/>	<hr/>

Rights in Aztec plc assuming a pre-tax profit

	\$70,000 \$	\$140,000 \$
Equity shareholders	10,400	55,900
7% debenture holders	9,450	9,450
11% debenture holders	44,550	44,550
	✓✓	✓✓