Calculating the income in Aztec (Europe) at two levels of profit:

	$	$
Profit before tax	70,000	140,000
Less: Loan note interest ($270,000 @ 13%)	(35,100)	(35,100)
	34,900	104,900
Tax at 35%	(12,215)	(36,715)
	22,685	68,185

Assuming all profit is distributed:		
Dividend per share	$0.84	$2.53
Income for loan note holders:		
	$	$
Loan note interest	26,000	26,000
1,200,000 shares	10,082	30,304
	36,082	56,304

Income for providers of capital in Aztec plc:

	Pre-tax profit of $70,000			*Pre-tax profit of $140,000*		
	Loan Int	*Dividend*	*Total*	*Loan Int*	*Dividend*	*Total*
	$	$	$	$	$	$
7% Debs	9,100	7,562	16,662	9,100	22,728	31,828
11% Debs	26,000	10,082	36,082	26,000	30,304	56,304
Shareholders		5,041	5,041		15,153	15,153

The above indicates that the 11% debenture holders will receive less than their current income entitlement at the $70,000 level of pre-tax profits whereas the 7% debenture holders will receive more income at that level than might be considered equitable.

With regard to the three parties:

√1 The scheme is unfair to the 11% debenture holders in respect of both the capital and income entitlement and should be revised.

√1 The 7% debenture holders have received more than the monetary value of their current interest in Aztec plc, and this may be regarded as an incentive for their continued financial support. That said, it appears unusual that they appear to have benefited from the reconstruction, whereas the 11% debenture holders appear to have lost out and given up their floating charge on the assets of Aztec plc.

√1 The scheme is unfair in that the equity shareholders who would have lost everything in a liquidation are credited with capital of $60,000 to retain a 22% interest in the net assets.