Guida[redacted] Shares

1. What are bonus shares? [redacted]

A bonus issue of shares is also k[redacted] or scrip issue. Bonus shares are shares allotted to the existing me[redacted] rata to their existing shareholding and paid for by the company o[redacted]rofits. Instead of paying out the company's profit as dividends, the[redacted]or additional shares given to each shareholder.

With a scrip or bonus issue, a[redacted]fits to a fund called its capital redemption reserve and uses the[redacted]ares. However because the value of a shareholder's existing holding[redacted]tion to the amount of new shares issued, the total value of each sha[redacted]t change significantly.
One effect of a bonus issue is t[redacted]nt of money available for paying dividends, as the money is used[redacted]hares given to each shareholder instead, so the term bonus is not a[redacted]at is why the term capitalisation of reserves is sometimes used.

The effect of a bonus issue in the[redacted]t is to transfer a sum equivalent to the nominal value of the bonus sh[redacted]e for distribution' to 'share capital'. The company therefore turns part[redacted]es into new shares.

2. Why are bonus shares is[redacted]

Bonus shares are issued for a va[redacted]ill often depend upon the type of company involved. A public com[redacted]issue bonus shares for different reasons to a private company. A p[redacted]ed shares may wish to turn part of its accumulated reserves into ne[redacted]educe the value that each share publicly trades at making them m[redacted]ill clearly not be of concern to a private company.

For most private companies, a b[redacted]crease the number of shares the company has without requiring s[redacted]y more money. This could be to strengthen the company's balance[redacted]ber of shares in circulation so that some may be given away or s[redacted]mber of shares held by existing shareholders so that the company[redacted]s to an outside investor. A bonus issue can also be used to increas[redacted]ssued share capital to £50,000 (or its euro equivalent) so it can re-re[redacted]any - it may not re-register until it has satisfied this requirement.

3. Procedure to issue bonus[redacted]

Issuing bonus shares in a private[redacted]re allotment and therefore it must be recommended by the directors[redacted]val of the shareholders. The only exception to this is private com[redacted]class of share which, under the Companies Act 2006, do not requi[redacted] the shareholders to issue shares. Then a board resolution alone sho[redacted]

A company **must** however revie[redacted]ion to check they permit such an issue and the terms on which the[redacted]ssued. For those companies with

Model Articles, article 36 permits [redacted] quires it to be authorised by the shareholders by ordinary resolutio[redacted]nly one class of shares).
The company must notify the al[redacted]s to Companies House on Form SH01. Companies House advice [redacted] a company issuing bonus shares should show the amount paid or[redacted]'0.00' and the shares as paid up 'otherwise than in cash'. Form SH[redacted]ee Section of our website and on Companies House website, [www.c[redacted]]

This procedural checklist sets out [redacted]d:

- check bonus shares are p[redacted] company's articles of association (Model Articles – article 36[redacted]
- check there is no limit on [redacted]pital amount that might restrict the maximum number of shar[redacted] (this is usually not relevant for a Companies Act 2006 comp[redacted]
- check the directors are aut[redacted]hares and the procedure, if stated (if no authority an ordinary [redacted]
- pass an ordinary (written) r[redacted]bonus issue;
- issue the relevant share ce[redacted]nths;
- submit form SH01 (Return[redacted]) to Companies House within 15 days of the allotment; and [redacted]
- update the register of mem[redacted]
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Note that for company law purpos[redacted] rights do not apply to the issue of bonus shares, s.564 Companies A[redacted]

4. **Simply Docs package of [redacted]**

As well as this Guidance Note, we[redacted] and a shareholder resolution that can be downloaded.

The first board meeting covers th[redacted] directors' resolution is necessary. The second (more usual) board m[redacted]n where the directors' recommend the bonus issue and then it is [redacted] by the shareholders by ordinary resolution. Our shareholders' reso[redacted]atter board minute.
In drafting these documents we h[redacted]nd straight forward bonus issue of shares in a private company, whe[redacted] one class of ordinary shares with 2006 Act model articles.

We have not considered any pote[redacted]mplications that may be relevant. Independent legal advice shou[redacted]en undertaking these types of transactions.