

Mr García: Oh, OK.

Mr Larsen: Actually, the old Companies Act stipulated that not more than 50 members could hold shares within the company. But the new Companies Act of 2006 changed this so that there is no longer any limit on the number of shareholders.

Mr García: That's interesting. However, it's not an issue for me either way.

Mr Larsen: On the other hand, a limited company is comparatively easy to form. You have several options open to you, depending on how soon you want the company formed.

Mr García: Well, I'd like to begin operations as soon as possible. Of course, I know I'll have to wait until the paperwork is completed. How long would that take? A couple of days?

Mr Larsen: Well, once you supply all the necessary documents to Companies House, it generally takes a couple of weeks for them to process the documents.

Mr García: A couple of weeks! That's much too long. What other options do I have?

Mr Larsen: You could form the company through a company formation agent. The agent would fill in the required forms for you and then submit them to Companies House. It would take around five to eight days before the company may begin to trade.

Mr García: That sounds better. Maybe you could tell me where I can find one of these agents ...

Unit 3

Listening A

Mr Young: ... so if there are any questions, I'd be happy to answer them now.

Ms Siebert: Mr Young, I've got a question, if you don't mind. In your talk, you mentioned a rights issue. Could you explain to me in detail what a rights issue is?

Mr Young: Well, a rights issue is an issue of new shares for cash to existing shareholders. The shares are issued proportionally, that is, in proportion to the number of shares the shareholders already hold. It's a good way of raising new cash from shareholders. For publicly quoted companies, it's a source of new equity funding.

Ms Siebert: I see. But why issue shares to existing shareholders?

Mr Young: From a legal standpoint, a rights issue must be made before making a new issue to the public, and the existing shareholders have what is referred to as the 'right of first refusal' on the newly issued shares. This right is also known as a 'pre-emption right'. Why is this important for the shareholder? Well, when a shareholder takes up these pre-emption rights, he can maintain his existing percentage holding in the company. However, shareholders sometimes waive these rights and sell them to others. Another thing a shareholder can do is to vote to cancel their pre-emption rights.

Ms Siebert: What about the price of these shares?

Mr Young: The price at which the new shares are issued is generally much lower than the market price for the shares. You often see discounts of up to 20 or 30 per cent.

Ms Siebert: That doesn't really make sense to me. Why would a business offer new shares at a price that's significantly lower than the current market price of the shares?

Mr Young: There are quite good reasons for doing this, actually. The main reason is to make the offer attractive to shareholders. Also, the aim is to encourage the shareholders either to take up their rights or sell them. The idea behind this is to ensure that the share issue is fully subscribed. That means, of course, that the new shares have all been sold. The price discount has another function, too: it serves as a

kind of safeguard if the market price of the company's shares falls before the issue is completed. It makes sense if you think about it: if the market share price fell below the rights issue price, then it would be very unlikely that the issue would be successful. Naturally, in such a case, shareholders could buy the shares more cheaply on the stock market than by taking up their rights to buy through the new issue.

Ms Siebert: So, let me see if I understand you correctly. You said that existing shareholders don't have to take up their rights to buy new shares, is that right?

Mr Young: That's right. Shareholders who don't want to take up their rights are entitled to sell them on the stock market or by way of the company making the rights issue, either to other existing shareholders or new shareholders. In that case, the buyer has the right to take up the shares on the same basis as the seller.

Ms Siebert: Mmm, I see. Are there any other matters connected to rights issues that I should know about?

Mr Young: Just one more thing, perhaps – shareholder reactions. Shareholders may be unhappy about firms continually making rights issues and may have a negative reaction. They may not like being forced to do something – and rights issues force them either to take up their rights or sell them. As a result, they may sell their shares. And selling their shares can drive down the market price.

Ms Siebert: That makes sense. I think I've got it now. Well, thanks for the detailed answer.

Mr Young: My pleasure. Any more questions?

Listening B

Mr Mansfield: Have you got any other questions, Ms Saito? Is there anything else about capitalisation you'd like me to explain? Anything in the provisions, perhaps?

Ms Saito: Yes. Look at this: it says here 'consideration for shares'. What does that mean, 'consideration'? 'To consider' means 'to think about something', as far as I'm concerned.

Mr Mansfield: Mm, in this case, 'consideration' simply means 'payment'. It can also mean something that you promise to give or do when you make a contract, for example.

Ms Saito: You lawyers have a language all of your own! But, actually, I must say, I find this document relatively easy to make sense of otherwise. In my experience, company documents, or rather all of the legal documents in English I've worked with, have been particularly complicated, not like normal English at all, and I speak English all the time in my business, so ...

Mr Mansfield: Well, that's very gratifying to hear, Ms Saito. Actually, our firm is rather proud of the fact that the legal documents we write are clear and understandable for non-lawyers. We've been trained to avoid legalese.

Ms Saito: That's certainly a selling point for your services!

Mr Mansfield: You're quite right about that! Our clients definitely appreciate the transparency of the documents we draft for them. You know, the founder of our firm, Mr Guinness, was something of a pioneer. He was a strong supporter of the Plain Language Movement and instituted a rather revolutionary policy for our firm ...

Ms Saito: The Plain Language Movement? What's that?

Mr Mansfield: Well, that's a school of thought that believes that legal documents – actually, documents of all kinds – should be written so that you can understand them easily the first time you read them. The way they see it, when it comes to legal texts, people are entitled to understand the documents that bind them or state their rights.

Ms Saito: That certainly makes sense!

Mr Mansfield: It also makes good business sense – commercial clients of Australian law firms are happy to pay for legal