

## Share Rights Issue

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## Share Rights Issue

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Issue of new shares to existing shareholders at a discounted price

Renounceable: the rights can be sold

Non-renounceable: take it or leave it

**Example**

Rencoe Ltd has 200,000 shares in issue. Share price before rights issue is HK\$10. A 1 for 5 rights issue is announced at a subscription price of HK\$8. What will the theoretical share price move to after the rights issue? What will the rights be valued at?

	<b>Shares Issued</b>	<b>Total Shares</b>
<b>1 for 5</b>	<b>40,000</b>	<b>240,000</b>

Total share value before rights issue     $\text{HK\$}10 \times 200,000 = \text{HK\$}2,000,000$

Total share value after rights issue     $\text{HK\$}2,000,000 + (\text{HK\$}8 \times 40,000) = \text{HK\$}2,320,000$

Share price after rights issue     $\text{HK\$}2,320,000 / 240,000 = \text{HK\$}9.66$

Value of rights per share     $\text{HK\$}9.66 - \text{HK\$}8.00 = \text{HK\$}1.66$

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**Example**

Rencoe Ltd has 200,000 shares in issue. Share price before rights issue is HK\$10. A 1 for 5 rights issue is announced at a subscription price of HK\$8. What will the theoretical share price move to after the rights issue? What will the rights be valued at?

**Short-cut to Answer**

	Shares Issued	Price per Share	Total Value
<b>Original</b>	<b>5</b>	<b>HK\$10</b>	<b>HK\$50</b>
<b>Rights issue</b>	<b>1</b>	<b>HK\$8</b>	<b>HK\$8</b>
<b>Total</b>	<b>6</b>		<b>HK\$58</b>
<b>Value per share</b>	<b>= 58/6</b>	<b>Value per right</b>	<b>= 9.66 - 8.00</b>
	<b>= 9.66</b>		<b>= 1.66</b>

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