REDEMPTION OF PREFERENCE SHARES

1. Verify the following points before taking the decision of redeeming redeemable preference shares :

(a) They must be redeemed only out of distributable profits of the company or out of the proceeds of a fresh issue of shares made for the purpose of redemption.

(b) They must be fully paid up

(c) The premium, if any, on such redemption, must be provided out of the profits or out of the security premium account of the company, before the shares are redeemed.

(d) If they are redeemed out of distributable profits of the company, then before such redemption, a sum equal to the nominal amount of shares to be so redeemed must be transferred to a reserve fund called the Capital Redemption Reserve Account from the distributable profits of the company.

2. Hold Board Meeting by giving notice to all the directors of the company as per Section 286 and decide about the number of preference shares to be redeemed and the date of such redemption.
3. Beware that every officer whose duty is to give notice of the Board Meeting as aforesaid and who fails to do so, will be punishable with fine of up to Rs 1000/-
4. As soon as the decision is taken, pass a resolution in the same Board Meeting approving the redemption of redeemable preference shares.
5. If the redemption is to be made out of the proceeds of fresh issue of shares , then:
   - (i) Hold a Board Meeting by giving notice to all the directors of the company as per Section 286 and approve the issue of fresh shares up to the nominal amount of the shares to be redeemed by passing a resolution.
   - (ii) Pass another resolution in the same Board Meeting approving the redemption of preference shares out of the proceeds of the fresh issue of shares.
   - (iii) Pass another Board resolution to issue fresh shares to the existing shareholders.
   - (iv) Redeem the preference shares within one month of issue of new shares.
6. Carry out the redemption of preference shares in both the cases on such terms and such manner as per the Articles of the Company.
7. If the Articles are silent follow Regulation 2 of table A of Schedule I to the Act.
8. In case of Listed Co, inform the SE atleast 21 days in advance and forward a copy of the BR to SE.
9. Inform the preference shareholders individually and also through public notice in the newspaper about the proposed redemption.