

ISSUE OF BONUS SHARES

THE FOLLOWING STEPS GIVES YOU A CLEAN VIEW IN CARRYING OUT
BONUS ISSUE PROCESS

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STEPS:

1. VERIFY WHETHER THE COMPANY IS ELIGIBLE TO ISSUE BONUS SHARES
2. VERIFY WHETHER THERE IS ADEQUATE UN-ISSUED EQUITY CAPITAL IN THE AUTHORIZED CAPITAL
3. DETERMINE THE TERMS AND CONDITIONS OF BONUS ISSUE
4. CONVENE BOARD MEETING - PASS BOARD RESOLUTION
5. GIVE NOTICE OF EXTRAORDINARY GENERAL MEETING
6. PASS ORDINARY RESOLUTION IN THE EXTRAORDINARY GENERAL MEETING
7. CONVENE BOARD MEETING --MAKE ALLOTMENT OF SHARES
8. FILE RETURN OF ALLOTMENT
9. ALL SHARE CERTIFICATES SHALL BE DELIVERED TO THE SHAREHOLDERS WITHIN 3 MONTHS FROM THE DATE OF ALLOTMENT OF BONUS SHARES.

VERIFY WHETHER THE COMPANY IS ELIGIBLE TO ISSUE BONUS SHARES

Issue of bonus share is a common feature and it takes place when the company accumulates a large surplus. This surplus is converted into capital and divided among members in proportion to their rights as fully paid bonus shares. Bonus issue is also known as capitalisation issue as the purpose behind this is to capitalise profits which are available in the hands of the company after the distribution of profits as dividends to its shareholders.

The Companies Act, 1956 does not contain any provisions dealing with bonus shares, though it has made references to bonus issue in certain sections. Section 205(3) of the Companies Act, 1956 there is no prohibition on a company to capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares or paying up any amount, for the time being unpaid, on any shares held by the members of the company.

Check whether the Articles of Association of the company contains any restriction on capitalisation of profits or reserves for issuing fully paid up bonus shares.

Regulations 96 & 97 of Table A to Schedule I of the Companies Act, 1956 contain provisions relating to capitalisation of profits and reserves of the company. According to these regulations only the share premium account and the capital redemption reserve account shall be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. Also the proposal to issue bonus shares has to be approved by the shareholders of the company in general meeting upon recommendation by the Board of Directors of the company. However if these regulations have been excluded from the Articles of Association of the company then it shall be sufficient if the Board approves the bonus issue.

VERIFY WHETHER THERE IS ADEQUATE UN-ISSUED EQUITY CAPITAL IN THE AUTHORIZED CAPITAL

Check whether the present authorized capital has adequate un-issued equity capital to accommodate the proposed bonus issue of shares.

If the un-issued equity capital in the authorized capital is not sufficient, the authorized capital has to be increased to create adequate number of shares.

DETERMINE THE TERMS AND CONDITIONS OF BONUS ISSUE

Before placing the proposal before the Board of Directors of the company, determine the terms and conditions of the bonus issue, namely,

A. Bonus issue ratio, i.e., the number of bonus equity shares proposed to be offered to the equity shareholders of the company for every equity share held by them.

B. Total number of equity shares proposed to be offered as bonus shares
There is no restriction on the number of equity shares that a company may offer as bonus shares.

C. Objects of the issue

Objects of bonus issue may include one or more of the following, namely,

1. Bridges the gap between capital and fixed assets.
2. Increase the market price of its shares.
3. Creates confidence for the investors/shareholders in the company.
4. Good market reputation.
5. Increases liquidity of shares.

D. Sources on bonus issue – *Securities premium and or Capital redemption reserve*

As per section 205(3) of the Companies Act, 1956 there is no prohibition on a company to capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares or paying up any amount, for the time being unpaid, on any shares held by the members of the company.

However the following points have to be borne in mind while determining the profits or reserves which may be capitalized, namely,

1. The securities premium account may be applied by the company in paying up unissued securities of the company to be issued to members of the company as fully paid bonus securities [Section 78(2) of the Companies Act, 1956]

2. The capital redemption reserve account may, be applied by the company, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.
[Section 80(5) of the Companies Act, 1956]

3. 2. If the company has adopted regulation 96 of Table A in Schedule I to the Companies Act, 1956 only the share premium account and capital redemption reserve account shall be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares.

It is advisable to consult the auditors of the company in drawing up the terms and conditions of the bonus issue

CONVENE BOARD MEETING

As per regulations 96 & 97 in Table A of Schedule 1 of the Companies Act, 1956 the proposal to issue bonus shares has to be approved by the shareholders of the company in general meeting upon recommendation by the Board of Directors of the company. However if these regulations have been excluded from the Articles of Association of the company then it shall be sufficient if the Board approves the bonus issue.

A Board Meeting can be called by any of the directors or by the Manager or the Secretary on the requisition of any of the directors. Please check if there is any specific different method prescribed by the Articles of Association of the Company.

A specimen of the Agenda that may be circulated is given which may be used with such changes as may be considered appropriate. The Agenda may be annexed to the Notice or sent separately within a reasonable time before the meeting.

A specimen of the intimation to be sent to the stock exchanges is given which may be used with such changes as may be considered necessary.

The specimen of the notice calling a Board Meeting, which is given, can be used with such changes as may be considered appropriate.

SPECIMEN AGENDA FOR BOARD MEETING

AGENDA FOR THE MEETING OF BOARD OF DIRECTORS OF
(Company name) TO BE HELD ON (Day), (Date) AT (Time) AT (Place).

1. To appoint Chairman of the meeting (This is not necessary if a Chairman has been appointed by the Board or in the Articles of Association and he is present at the meeting.)
2. To give leave of absence to the Directors who have given intimation of their inconvenience to attend the meeting.
3. To approve the minutes of previous Board Meeting.
4. To approve the minutes of the Committee Meetings held from (previous board meeting date) till date.
5. To discuss and decide on the proposal to make a bonus issue of equity

shares (Please see notes to item no 5 of the Agenda and draft resolution)

6. To fix the date and time for convening an Extraordinary General Meeting and to approve notice of the same and to authorise the Secretary or other person to issue the notice convening the Extraordinary General Meeting. (Please see notes to item no 6 of the Agenda and draft resolution)

7. To discuss and decide any other matter with the permission of the Chair.

NOTES TO ITEM NO 5 OF THE AGENDA

It is proposed to make a bonus issue of (give no.) Equity shares of Rs each fully paid up at a proportion of (give no.) equity shares for every (give no.) equity shares held by the equity shareholders of the company as on [date on which transfer books are proposed to be closed] ranking paari paasu with the existing equity shares.

The proposal to issue bonus shares is beneficial to the company in the following manner, namely,
[Here state the objects of the issue. The objects of making a bonus issue can be any one of the following, namely,

1. Bridging the gap between capital and fixed assets.
2. Increase in the market price of shares.
3. To Create confidence for the investors/shareholders in the company.
4. Good market reputation.
5. Increases liquidity of shares.]

The total amount required to be capitalized for the purpose of the issue is Rs . Article No. of the Articles Of Association of the Company provide for capitalization of profits and reserves for issuing bonus shares.

Accordingly, the following sources of *profits/*reserves may be capitalized to provide for the bonus issue, namely,

- 1.
- 2.

[Here specify the sources of profits or reserves which may be capitalized to provide for the issue of fully paid up bonus shares]

The proposal to issue bonus issue shall be implemented on or before (give date)

DRAFT RESOLUTION

RESOLVED that pursuant to Article _____ of the Articles of

Association of the company, and subject to the consent of the members in the general meeting the Board do hereby recommend that a sum of Rs. _____ be capitalised out of the following namely,

- 1.
- 2.
- 3.

[State the reserves along with the amounts proposed to be capitalized from each reserve]

and be distributed amongst the equity shareholders of the company, by issue of _____ equity shares of Rs. _____ each credited as fully paid up to the equity shareholders in the proportion of _____ equity shares for every _____ equity shares held by them on the date the transfer books are proposed to be closed as may be declared by the board and that such new shares as and when issued and fully paid, shall rank pari passu with the existing equity shares.

RESOLVED FURTHER that for the purpose of putting into effect the proposed resolution, an extra-ordinary general meeting of the members of the company be convened to consider the proposed capitalisation of profits and issue of bonus shares

NOTES TO ITEM NO. 6 OF THE AGENDA

The proposal requires the approval of the members of the company and therefore an Extraordinary General meeting of the company is required to be convened for that purpose.

[Note: As per regulations 96 & 97 in Table A of Schedule 1 of the Companies Act, 1956 the bonus issue has to be approved by the shareholders of the company in general meeting upon recommendation by the Board of Directors of the company

If the Articles of Association of the company contain provisions similar to Articles 96 & 97 of Table A or have not excluded Articles 96 & 97 of Table A then the approval of the members of the company has to be obtained in a general meeting for capitalisation of profits.

However if these regulations have been excluded from the Articles of Association of the company then it shall be sufficient if the Board approves the bonus issue.]

Draft Resolution

"RESOLVED THAT an Extraordinary General Meeting of the Company be called on (date) at (time) at (place) to discuss and decide on the matters specified in the notice of the proposed meeting, a draft copy of which (including the Explanatory statement annexed thereto) is placed before

the meeting and the same be and is hereby approved. The Chairman and / or Mr/Ms , Director of the Company be and are hereby authorised to make such changes in the draft copy of the notice as may be necessary"

FURTHER RESOLVED THAT Mr / Ms , Secretary / Director of the Company, be and is hereby authorised to send the Notice to

1. members
2. legal representatives of the deceased or insolvent members
3. auditors of the Company.
4. directors
5. any other person or institution to whom notice has been agreed to be given.

SPECIMEN OF NOTICE OF BOARD MEETING

Name of the company
Registered Office address

Date:

To

Dear Sir / Madam ,

Notice is hereby given that a meeting of the Board of Directors of the Company is fixed to be held on (Day), (Date) at (Time) at (Place).

Kindly make it convenient to attend the same.

The Agenda for the meeting is enclosed/sent separately.

Thanking you,
Yours faithfully

Sd/

Director / Secretary

PASS BOARD RESOLUTION

A specimen of the Board Resolution given may be used with such changes as may be considered appropriate.

Please note that a company which announces its bonus issue after the approval of the Board of Directors must implement the proposal within a period of *six months* from the date of such approval and shall not have the option of changing the decision.

1. Board Resolution approving bonus issue

RESOLVED that pursuant to Article _____ of the Articles of Association of the company, and subject to the consent of the members in the general meeting the Board do hereby recommend that a sum of Rs. _____ be capitalised out of the following namely,

- 1.
- 2.
- 3.

[State the reserves along with the amounts proposed to be capitalized from each reserve]

and be distributed amongst the equity shareholders of the company, by issue of _____ equity shares of Rs. _____ each credited as fully paid up to the equity shareholders in the proportion of _____ equity shares for every _____ equity shares held by them on the date the transfer books are proposed to be closed as may be declared by the board and that such new shares as and when issued and fully paid, shall rank *pari passu* with the existing equity shares.

RESOLVED FURTHER that for the purpose of putting into effect the proposed resolution, an extra-ordinary general meeting of the members of the company be convened to consider the proposed capitalisation of profits and issue of bonus shares

2. Resolution convening Extraordinary General Meeting:

RESOLVED THAT an Extraordinary General Meeting of the Company be called on (date) at (time) at (place) to discuss and decide on the matters specified in the notice of the proposed meeting, a draft copy of which (including the Explanatory statement annexed thereto) is placed before the meeting and the same be and is hereby approved. The Chairman and / or Mr/Ms , Director of the Company be and are hereby authorised to make such changes in the draft copy of the notice as may be necessary"

FURTHER RESOLVED THAT Mr / Ms , Secretary / Director of the Company, be and is hereby authorised to send the Notice to

1. members
2. legal representatives of the deceased or insolvent members
3. auditors of the Company.
4. directors
5. any other person or institution to whom notice has been agreed to be

given.

GIVE NOTICE OF EXTRAORDINARY GENERAL MEETING

This step is necessary only if the Articles of Association of the company provide that approval of the members of the company is required to be obtained for capitalization of reserves.

[Note: As per regulations 96 & 97 in Table A of Schedule 1 of the Companies Act, 1956 the bonus issue has to be approved by the shareholders of the company in general meeting upon recommendation by the Board of Directors of the company

If the Articles of Association of the company contain provisions similar to Articles 96 & 97 of Table A or have not excluded Articles 96 & 97 of Table A then the approval of the members of the company has to be obtained in a general meeting for capitalisation of profits. However if these regulations have been excluded from the Articles of Association of the company then it shall be sufficient if the Board approves the bonus issue.]

A specimen of the notice of Extraordinary General Meeting is given which may be used with such changes as may be considered appropriate.

The Notice has to be issued to

1. members
2. legal Representatives of the deceased or insolvent members
3. auditors of the Company.
4. directors
5. any other person or institution to whom notice has been agreed to be given.

Company Name

Registered Office address

Date:

NOTICE

NOTICE is hereby given that the an Extraordinary General Meeting of the Company will be held at (Time) on (Date), at (Place) to transact the following special business:

To consider and if thought fit, to pass, with or without modification, the following Resolution as Ordinary Resolution:

RESOLVED that pursuant to the applicable provisions of the Companies Act 1956 and Article _____ of the Articles of Association of the Company and such other approvals, permissions and sanctions as may be necessary and subject further to such terms, conditions,

alterations, modifications, changes and variations as may be specified while according such approvals which the Board of Directors of the Company be and is hereby authorised to accept, if it thinks fit, the Company be and is hereby authorised to capitalise upto Rs. _____ out of 'Reserves and Surplus' and transferred to share capital account towards issue and allotment of equity shares not exceeding _____ equity shares of Rs. _____ each, as bonus shares credited as fully paid-up, to members of company holding equity shares of Rs. _____ each whose names stand in the register of members of the company on such date (date of closure of transfer books) as the directors may determine, in that behalf in the proportion of _____ new fully paid-up equity shares of Rs. _____ each for every _____ Equity Share of Rs. _____ each, held as on the date of closure of transfer books and that the bonus shares so issued and allotted be treated for all purposes as an increase of the nominal amount of the Equity Capital of the Company held by each such member/person and not as income and that the said Equity Shares be issued and allotted, inter-alia, on the following terms and conditions :

- (a) The new Equity Shares of Rs. _____ each to be issued and allotted as Bonus Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu in all respects and carry the same rights as the then existing Equity Shares of the Company, notwithstanding the date or dates of allotment thereof, including entitlement to payment of dividend, if declared, for the financial year in which the same are allotted.
- (b) No letters of Allotment shall be issued for the Bonus Shares and the Share Certificates in respect thereof shall be delivered within 3 months from the date of their allotment.
- (c) The issue and allotment of fully paid-up new Equity Shares as Bonus Shares to the extent that they relate to non-residents shall be subject to approval of the Reserve Bank of India under the Foreign Exchange Management Act, 1999 (including any statutory modification(s) or re-enactment thereof for the time being in force).

RESOLVED FURTHER that the Board be and is hereby authorised to do all such acts, deeds, matters and things as may in its sole and absolute discretion, deem necessary, expedient, usual or proper and to settle any question, doubt or difficulty that may arise with regard to the issue and allotment of Bonus Shares as aforesaid or any other matter incidental or consequential thereto.

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON HIS BEHALF

ONLY ON A POLL AND SUCH PROXY NEED NOT BE A MEMBER. THE PROXY FORMS, DULY STAMPED (30 PAISE) AND COMPLETED SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE TIME FIXED FOR COMMENCEMENT OF THE MEETING.

2. A Proxy Form is enclosed for use, if necessary, by the member.

3. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the special business is annexed hereto.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

With a view to bring the Share Capital to a level commensurate with the total capital employed in the Company (in case bonus issue is for any other purpose the same may be included), your Directors have proposed that sums not exceeding Rs. _____ be drawn from the 'Reserves and Surplus' of the Company and capitalised and transferred to Share Capital Account towards issue and allotment of Equity Shares not exceeding _____ Equity Shares of Rs. _____ each as Bonus Shares, credited as fully paid-up, to the members holding Equity Shares as on the Record Date to be specified in this behalf. The Bonus Shares will be issued in the proportion of _____ new Equity Share(s) for every _____ Equity Share held on the date on which transfer books are closed. The said Bonus Shares shall rank pari-passu with the then existing Equity Shares.

In terms of the above Resolution, subject to any unforeseen circumstances and/or any regulatory measures of law, your Directors place on record their intention to recommend payment of dividend at a rate not less than _____ % on the increased paid-up Equity Capital after issue of the Bonus Shares for the year in which such Bonus Shares are issued and allotted.

The issue of Bonus Shares to those members who are non-residents will require the permission of the Reserve Bank of India under the Foreign Exchange Management Act, 1999. Necessary application will be submitted by the Company to the Reserve Bank of India in due course.

The Board recommends the Resolution for approval of the shareholders.

*None of the directors (other than the managing director) or manager is interested in the resolution.

*Mr/Ms , director / manager is interested in the subject matter of the resolution by reason of his/her (give reason)

PASS ORDINARY RESOLUTION IN THE EXTRAORDINARY GENERAL MEETING

Passing a Ordinary Resolution at an Extraordinary General Meeting is

required to be done by a majority of Members present in person and entitled to vote, voting for the Resolution or when Poll is demanded and taken, by majority of the total votes cast for the resolution.

A specimen of the Resolution is given, which can be used with such changes as may be considered appropriate.

Specimen Resolution

RESOLVED that pursuant to the applicable provisions of the Companies Act 1956 and Article _____ of the Articles of Association of the Company and such other approvals, permissions and sanctions as may be necessary and subject further to such terms, conditions, alterations, modifications, changes and variations as may be specified while according such approvals which the Board of Directors of the Company be and is hereby authorised to accept, if it thinks fit, the Company be and is hereby authorised to capitalise upto Rs.

_____ out of 'Reserves and Surplus' and transferred to share capital account towards issue and allotment of equity shares not exceeding _____ equity shares of Rs. _____ each, as bonus shares credited as fully paid-up, to members of company holding equity shares of Rs. _____ each whose names stand in the register of members of the company on such date (date of closure of transfer books) as the directors may determine, in that behalf in the proportion of _____ new fully paid-up equity shares of Rs. _____ each for every _____ Equity Share of Rs. _____ each, held as on the date of closure of transfer books and that the bonus shares so issued and allotted be treated for all purposes as an increase of the nominal amount of the Equity Capital of the Company held by each such member/person and not as income and that the said Equity Shares be issued and allotted, inter-alia, on the following terms and conditions :

(a) The new Equity Shares of Rs. _____ each to be issued and allotted as Bonus Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari-passu in all respects and carry the same rights as the then existing Equity Shares of the Company, notwithstanding the date or dates of allotment thereof, including entitlement to payment of dividend, if declared, for the financial year in which the same are allotted.

(b) No letters of Allotment shall be issued for the Bonus Shares and the Share Certificates in respect thereof shall be delivered within 3 months from the date of their allotment.

(c) The issue and allotment of fully paid-up new Equity Shares as Bonus Shares to the extent that they relate to non-residents shall be subject to approval of the Reserve Bank of India under the Foreign Exchange

Management Act, 1999 (including any statutory modification(s) or re-enactment thereof for the time being in force).

RESOLVED FURTHER that the Board be and is hereby authorised to do all such acts, deeds, matters and things as may in its sole and absolute discretion, deem necessary, expedient, usual or proper and to settle any question, doubt or difficulty that may arise with regard to the issue and allotment of Bonus Shares as aforesaid or any other matter incidental or consequential thereto.

MAKE ALLOTMENT OF SHARES

A Board Meeting shall be convened to allot bonus shares to the shareholders.

Share certificates containing the bonus shares may be issued only by a resolution passed by the Board of Directors or committee thereof in compliance with Companies (Issue of Share Certificate) Rules, 1960.

Specimen resolutions for allotment of shares and issue of share certificates are given which may be used with such changes as may be considered appropriate.

All share certificates shall be delivered to the shareholders within 3 months from the date of allotment of bonus shares in the manner specified in Section 53 of the Companies Act, 1956.

Specimen resolution:

1. Allotment by Board

RESOLVED THAT bonus shares credited as fully paid-up be and are hereby allotted to members of company holding equity shares of Rs. _____ each whose names appear in the list tabled before the Board and initialed by the Chairman for the purposes of identification in the proportion of _____ new fully paid-up equity shares of Rs. _____ each for every _____ Equity Share of Rs. _____ each,.....

RESOLVED FURTHER THAT share certificates in respect of the shares allotted as aforesaid be issued to the said persons under the common seal of the company and under the signatures of any two directors of the company and counter signature of the secretary of the company.

2. Allotment by Committee of the Board

RESOLVED THAT a Committee of Directors to be called "Share Allotment Committee" consisting of,,, Directors of the company (give names of Directors) be and is hereby constituted with power to make allotment of bonus shares credited as fully paid-up be to members of company holding equity shares of Rs. _____ each whose names appear in the list tabled before the Board and initialed by the Chairman for the purposes of identification in the proportion of _____ new fully paid-up equity shares of Rs. _____ each for every _____ Equity Share of Rs. _____ each,.....

FILE RETURN OF ALLOTMENT

File return of allotment in Form No 2 of Companies (Central Government's) General Rules and Forms, 1956 with Registrar of Companies together with prescribed fee within 30 days of after the date of allotment.