

Shares and shareholders



What you need to know

Shareholders are investors in a company. They pay money into the company in return for shares. The amount shareholders pay for shares is determined by agreement with the company. They do not participate in the management of the company, other than by voting on the appointment and removal of directors.

Issue of shares

After incorporation a company must issue to any person named in the application as a shareholder, the number of shares that the application says the shareholder will receive. After the first issue of shares, the board of a company may issue shares at any time, to any person, and in any quantity it sees fit. This power is subject to the provisions of the Companies Act 1993 and any provisions in a company's constitution that may modify its right to issue shares. The Registrar must receive notice of the share issue in the prescribed form. This must be filed with the Companies Office within ten working days of the issue.



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Distributions to shareholders

The board of a company may authorise a distribution by the company at any time, and of any amount, and to any shareholders it sees fit. But before doing so it must:

- be satisfied, on reasonable grounds, that the company will be able to satisfy the solvency test immediately after the distribution
- ensure that it does not breach section 53 of the Companies Act 1993, or any provision in its constitution relating to distributions.

Directors who vote in favour of a distribution must sign a certificate stating that the company can satisfy the solvency test and give the grounds for that opinion. A company satisfies the solvency test if:

- it is able to pay its debts as they become due in the normal course of business
- the value of the company's assets is greater than the value of its liabilities including contingent liabilities.

Rights of shareholders

A shareholder is a person who holds shares in a company. In most cases shareholders do not participate in the management of the company however they have the right to vote on the appointment and removal of directors.