

“Statutory control” in this Note means the degree of control which a company has over a subsidiary.”

Trigger

Under the chain principle, if an investor acquires statutory control of the first company, typically by acquiring or increasing its shareholding to over 50%, it will trigger a chain principle offer for the -second company if the criteria under either the substantiality test as set out in (a) above or the purpose test as set out in (b) are met.

Calculation of the chain principle offer price

The offer price should be calculated objectively taking into consideration the transacted price for shares in the first company and the relative value of the second company. The objective of the exercise is to establish how much of the price paid for the first company is attributable to its holding in the second.

The mechanism for pricing chain principle offers may differ depending

and Company B is 1,000,000 shares and 500,000 shares respectively.

Steps to calculate the chain principle offer price for Company B:

1. Determine the ratio reflecting the relative values of Company A and Company B

- (a) The value of Company B attributable to Company A is calculated by multiplying the NAVNALNCI of Company B by the percentage shareholding of Company A in Company B:

$$\$400,000 \times 30\% = \$120,000$$

- (b) A relativity ratio of 0.24 is obtained by dividing the value of Company B attributable to Company A (as a result of step (a) above) by the NAVNALNCI of Company A:

$$\$120,000 / \$500,000 = 0.24$$

2. Determine the implied market capitalisation of Company A

Based on the acquisition price of Company A's shares of \$4.00 per share, the implied market capitalisation of Company A is:

$$\$4.00 \times 1,000,000 = \$4,000,000.$$

3. Apportion the implied market capitalisation of Company A to Company B

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A in Company B (i.e. ie, 150,000). The price for each Company B share is therefore:

$$\$960,000 / 150,000 = \$6.40 \text{ per share.}$$

The offer price for the chain principle offer for Company B is \$6.40 per share.

In summary, the Pacpo Formula calculates a chain principle offer price as follows:

$$\left(\frac{\text{NAV/NALNCI of 2nd company}}{\text{1st company's \% shareholding in 2nd company}} \right) \times \left(\text{Transacted price of 1st company} \times \text{1st company's total issued shares} \right)$$

It is noted that the Pacpo Formula essentially arrives at the chain principle offer price of the second company by applying the same premium/or discount to NAV/NALNCI at which the offeror is acquiring the first company.

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