

LaForge Co is a listed company which designs and manufactures air-conditioning units, which are then sold through third party retailers and distributors. Economic growth in a number of Asian countries has increased the demand for its products and LaForge Co wishes to target these markets in order to generate sales and profit growth.

To target these markets, LaForge Co needs new machinery which will require investment of \$25.48m.

Two options for raising the finance are being considered

- (1) A rights issue, at a discount of 30% on the current share price of \$2.60 per share
- (2) An issue of 6% loan notes, redeemable at nominal value \$100, in ten years' time.

LaForge Co's P/E ratio is 11 times and this is expected to remain unchanged, whichever financing option is chosen

Extracts from LaForge Co's most recent financial statements are as follows:

	\$m
Profit from operations	25.50
Profit after tax	16.56
Share capital (\$0.50 per share nominal)	35.00

(a) For the rights issue, calculate the following:

- (i) The theoretical ex-rights price per share; and (3 marks)
- (ii) The value of a right per existing share. (1 mark)