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New treatment of fractional entitlements in terms of the JSE listings requirements

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INTRODUCTION

Fractional entitlements will typically arise in the context of a capitalisation issue, a rights offer or a scrip dividend. For example, a shareholder may be offered, in lieu of a cash dividend, 1.65 shares for every 100 shares held. Fractional entitlements may also arise in the context of a scheme of arrangement or an unbundling.

Only whole shares, and not fractions of shares, may be issued by a company and traded on the JSE. Previously, the Listings Requirements provided that all allocations of securities by a listed company will be rounded up or down, based on the standard rounding convention (i.e. an allocation will be rounded down to the nearest whole number if it is less than 0.5 and rounded up to the nearest whole number if it is equal to or greater than 0.5).

LISTINGS REQUIREMENT

In terms of the amendment to the Listings Requirements, allocations of securities must now be rounded down to the nearest whole number and shareholders must receive a cash payment for the fractions of securities to which they would otherwise have become entitled. The Central Securities Depository Participants and brokers will then sell the shares constituted by the aggregation of the fractions in the open market.

CONCLUSION

If a listed company's MOI provides for fractional entitlements to be rounded up or down, based on the standard rounding convention, it has until **1 May 2017** to amend its MOI to bring it into line with the change to the Listings Requirements. Until such time as the company has amended its MOI, the provisions of the MOI, and not the amended Listings Requirements, will apply in relation to fractional entitlements. A listed company must clearly state the rounding convention being applied in all relevant corporate action announcements.

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