27 July 2011

GUIDANCE NOTE 8 OF 2011

CONVERSION OF PAR VALUE SHARES IN TERMS OF COMPANIES ACT 71 OF 2008 (Sect 35 of the Act, Schedule 5, Item 6 and Regulation 31 of the Companies Regulations, 2011)

Dear Customer

The new Companies Act, 71 of 2008, contains certain transitional arrangements to make the transition from the previous to the current applicable Act, as smooth as possible. One of these transitional arrangements focuses on the conversion of par value shares of pre-existing companies to shares with no par value.

A pre-existing company may not authorize any new par value shares or shares having a nominal value or do any subdivision thereof on or after the effective date of the Act. The Act provides for the conversion of par value shares of a company, subject to Item 6 of Schedule 5. It is important to note the distinction between the conversion of par value **authorized shares** and par value **issued shares.**

Conversion of par value authorized shares of a company (none issued)
If a pre-existing company has any authorized par value shares of a specific class, from which it has not issued any shares, or all of its issued shares has been re-acquired by the company before the effective date, then the company is not entitled to issue any shares of that class, until it has converted that class of shares from par value to no par value shares.

The conversion must be effected by an adoption of a board resolution to convert that class or classes of authorized par value shares, and by filing a notice of that resolution under cover of a form COR 31, without charge, with the CIPC.

Conversion of par value issued shares of a company
If a pre-existing company has any outstanding issued shares of one or more classes of par value, the company may issue further authorized par value shares of that class, up to the maximum number of shares so authorized or until it has published a proposal to convert that class of issued shares.

In order to effect a conversion of par value issued shares of a specific class or classes, an amendment of a company's Memorandum of Incorporation is required, which-

- May be proposed at any time by the company's board; and

- Will have been adopted only if it is approved by a special resolution adopted by the holders of each such class of shares to be converted; and
- A further special resolution adopted by a meeting of the company's shareholders called for that purpose.

The board must also cause a report (regulation 31(7)(a)-(d) for requirements) to be prepared in respect of the proposed resolution to convert the issued par value shares, which must be published to the shareholders before the meeting at which the resolution will be considered, and filed with the CIPC (filed as a draft for examination of correctness) and SARS, for consideration.

Once the conversion of the issued par value shares has been confirmed by the adoption of two special resolutions as indicated above, such resolutions, together with the report must be lodged with the CIPC under cover of form COR 15.2 to effect the amendment of the shares.

It is important to note that in both instances the whole class of par value shares is converted and in the case where there are shares in issue this will entail that both the issued and authorized unissued shares are converted.

Yours sincerely

Mr Astrid Ludin
Commissioner
4 **August 2011**