

## CONTROL INSTRUMENTS GROUP LIMITED - TAXATION CONSIDERATIONS REGARDING THE UNBUNDLING OF TELIMATRIX LIMITED SHARES

(Incorporated in the Republic of South Africa)

(Registration number: 1964/003987/06)

JSE Share Code: CNL

ISIN: ZAE000001665

("Control Instruments" or "the Company")

### **TAXATION CONSIDERATIONS REGARDING THE UNBUNDLING OF TELIMATRIX LIMITED SHARES**

#### **Introduction**

1. Control Instruments shareholders are referred to the circular dated 13 September 2007 ("circular") setting out the details of the listing of TeliMatrix Limited ("TeliMatrix") and the subsequent unbundling of the TeliMatrix shares by Control Instruments. TeliMatrix was listed and commenced trade on the JSE Limited ("JSE") with effect from the opening of business on Monday 12 November 2007. The TeliMatrix shares were unbundled by Control Instruments on the same day and the settlement of the unbundling entitlement will be credited to dematerialised shareholders' accounts or posted to certificated shareholders on Monday, 19 November 2007.
2. The purpose of this announcement is to provide a summary of the taxation implications of the unbundling of the TeliMatrix shares by Control Instruments.
3. This summary of the taxation implications of the unbundling serves as a general guide and is not intended to constitute a complete analysis of the tax consequences, in terms of the Income Tax Act No 58 of 1962 ("the Act"), to the Control Instruments ordinary shareholders as a result of the unbundling of the TeliMatrix shares by Control Instruments. It is not intended to be, nor should it be considered to be, legal or tax advice.
4. Control Instruments and TeliMatrix and their advisors will not be responsible towards ordinary shareholders in respect of the tax consequences of the unbundling transaction under South African law, laws of the jurisdiction of their residence, and any tax treaty between South Africa and their country of residence.
5. Control Instruments' ordinary shareholders should therefore consult their own tax advisors about the tax consequences of the unbundling on their personal tax positions.
6. The unbundling by Control Instruments was, for tax purposes, effected in terms of section 46 of the Act. The South African tax implications for Control Instruments' ordinary shareholders, as set out in the provisions of section 46 of the Act, have been summarised below.

## South African tax considerations for shareholders

7. In terms of section 46 of the Act, the unbundling will have the following South African tax implications for Control Instruments' ordinary shareholders:
- 7.1 Any TeliMatrix shares acquired in terms of the unbundling by a Control Instruments ordinary shareholder that is a company, must be deemed not to be a dividend accrued to such company for the purposes of section 64B(3) of the Act, irrespective of the reserves utilised for the distribution. Consequently, the Control Instruments ordinary shareholders (being companies) will not obtain any STC credits as a result of the unbundling.
- 7.2 A Control Instruments ordinary shareholder acquiring TeliMatrix shares in terms of the unbundling must be deemed to have acquired both the Control Instruments ordinary shares and the TeliMatrix shares at a total cost equal to:
- where the Control Instruments ordinary shares were held by that shareholder as trading stock, the amount taken into account by the shareholder in respect of those Control Instruments ordinary shares, as contemplated in section 11(a), section 22(1), or section 22(2) of the Act; or
  - where the Control Instruments ordinary shares were held by that shareholder as capital assets, the expenditure in respect of those shares allowable in terms of paragraph 20 of the Eighth Schedule to the Act, or, where applicable, the market value of those shares determined by that shareholder as contemplated in paragraph 29(4) of the Eighth Schedule to the Act. Control Instruments' ordinary shareholders, who acquired their Control Instruments ordinary shares before 1 October 2001, may adopt (in certain circumstances) the market value of the Control Instruments ordinary shares at 1 October 2001 as the base cost for CGT purposes ("valuation date value"). The valuation date value contemplated in terms of this paragraph is the price published by the Commissioner for Inland Revenue in the Government Gazette, being R0.54 in respect of each Control Instruments ordinary share. The base cost of Control Instruments ordinary shares acquired on or after 1 October 2001 is the expenditure actually incurred in respect of, or directly related to, the cost of acquisition or disposal of such Control Instruments ordinary shares allowable in terms of paragraph 20 of the Eighth Schedule to the Act.
- 7.3 A Control Instruments ordinary shareholder must determine the portion of the cost, as contemplated in paragraph 7.2 above, attributable to the TeliMatrix shares as follows:
- A x [B/(B + C)], where:
- A = total cost/valuation date value (as per paragraph 7.2 above);
- B = the "market value" of all TeliMatrix shares received in respect of that Control Instruments ordinary share in terms of the unbundling; and

C = the “market value” of Control Instruments ordinary shares, in respect of which the TeliMatrix shares in “B” were received.

(Such “market values” must be determined as at the close of business the day after the unbundling. Control Instruments shares closed at R1.45 and TeliMatrix shares closed at R1.80 on Tuesday, 13 November 2007.)

As two TeliMatrix shares were received for each Control Instruments ordinary share held, the abovementioned ratio (i.e. B/(B + C)) will be as follows:

B = 2 shares x R1.80; and

C = R1.45

$R3.60 / (R3.60 + R1.45)$

$= 3.60 / 5.05$

$= 71.29\%$

7.4 Such apportioned cost or valuation date value, as the case may be, as contemplated in paragraph 7.3, must be treated by that Control Instruments’ ordinary shareholder as:

- an amount to be taken into account by that shareholder in respect of those TeliMatrix shares for the purposes of section 11(a), section 22(1), or section 22(2) of the Act, where such shareholder held the Control Instruments ordinary shares as trading stock; or
- expenditure actually incurred by that shareholder in respect of those TeliMatrix shares for the purposes of paragraph 20 of the Eighth Schedule to the Act or as the valuation date value adopted by that shareholder, where such shareholder held the Control Instruments ordinary shares as capital assets.

7.5 A Control Instruments ordinary shareholder must determine the portion of the cost or valuation date value, as the case may be, as contemplated in paragraph 7.2, attributable to the Control Instruments ordinary shares by reducing that cost or valuation date value, as the case may be, by the amount attributable to the TeliMatrix shares determined in terms of paragraph 7.3.

The portion of the cost or valuation date value, as the case may be, attributable to the Control Instruments ordinary shares is 28.71%.

Depending on whether the shareholder realises a historical gain or loss with the disposal of the TeliMatrix shares or Control Instruments ordinary shares, if held as capital assets, the shareholder can normally choose any of the following three methods to determine the base cost of the particular shares:

- The market value as on 01 October 2001;

- Twenty per cent of proceeds; and
- The time apportionment method.

Consequently it is relevant that the cost and valuation date value (if applicable), as contemplated in paragraph 7.2, be attributed in terms of paragraphs 7.3 and 7.5 as the facts on the future date of disposal will dictate which (i.e. the cost of valuation date value) will provide the most beneficial result.

7.6 A Control Instruments ordinary shareholder's shares, in respect of which the TeliMatrix shares were received, and the TeliMatrix shares acquired in terms of the unbundling must be deemed to be the same shares in respect of the date of acquisition of such Control Instruments ordinary shares and the date of incurring of any expenditure in respect of such Control Instruments ordinary shares. This is of particular importance when calculating the shares' base cost using the time apportioned method.

7.7 Where a Control Instruments ordinary shareholder, who holds Control Instruments ordinary shares as a result of the exercise by that shareholder of a right contemplated in section 8A of the Act, receives TeliMatrix shares in terms of the unbundling, a portion of any gain made by that shareholder in the exercise of that right to acquire those Control Instruments ordinary shares, not previously included in the shareholder's income, must be included in the income of that shareholder. The portion of the gain should be included in the income in the year of assessment during which that shareholder becomes entitled to dispose of such TeliMatrix shares acquired, which portion shall be calculated as follows:

$A \times [B/(B + C)]$ , where:

A = the gain previously made in exercising the right to acquire the said Control Instruments ordinary shares and not previously included in the shareholder's income;

B = the "market value" of all TeliMatrix - shares received in respect of that Control Instruments ordinary share in terms of the unbundling; and

C = the "market value" of Control Instruments ordinary shares in respect of which the TeliMatrix shares in "B" were received.

(Such "market values" shall be determined as at the close of business the day after the unbundling. Control Instruments shares closed at R1.45 and TeliMatrix shares closed at R1.80 on Tuesday, 13 November 2007.)

As indicated above the ratio (i.e.  $B/(B + C)$ ) should be  $3.60 / 5.05$ , which equals 71.29%.

7.8 In the year of assessment during which a shareholder, as contemplated in paragraph 7.7, becomes entitled to dispose of the Control Instruments ordinary shares, the portion of any such gain to be included in the income of that shareholder shall be calculated by

reducing such gain by the amount which has been determined or is to be determined in respect of the TeliMatrix shares in terms of paragraph 7.7.

- 7.9 The unbundling will be exempt from the payment of stamp duty or uncertificated securities tax on the registration of the transfer of those TeliMatrix shares into the names of the Control Instruments ordinary shareholders in terms of paragraph (x)(v) of the exemptions from Stamp Duty under paragraph 3 of Item 15 of Schedule 1 to the Stamp Duty Act No 77 of 1968 and from uncertificated securities tax in terms of section 6(1)(b)(ix)(ee) of the Uncertificated Securities Tax Act No 31 of 1998 on the change of beneficial ownership of the TeliMatrix shares in favour of the Control Instruments ordinary shareholders.

Cape Town  
16 November 2007

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