

Net 1 Applied Technology Holdings Limited (“Aplitec”)

Anticipated tax treatment of the distribution made by Aplitec to its shareholders on 28 June 2004

Aplitec shareholders are referred to the circulars issued on 17 November 2003 and 17 May 2004, as well as the announcement issued on 7 June 2004 regarding the buy-out and delisting of Aplitec.

Shareholders who elected for the cash option received R5.00 per share. Shareholders who elected the reinvestment option received R4.75 per share, which comprised of cash of R1.90 per share and a reinvestment of R2.85 per share in Net 1 Applied Technologies South Africa Limited (“New Aplitec”) via the New Aplitec Participation Trust. Aplitec distributed an amount of R1 126 103 918 to its shareholders in aggregate on 28 June 2004 in the course of liquidation, which was paid to the company’s shareholders on 30 June 2004.

1. Composition of the distribution to Aplitec shareholders

The composition of the distribution was as follows:

		R4.75 per share	R5.00 per share
1.1	Return of “untainted” share capital and “untainted” share premium (i.e. untainted by capitalised reserves)	0.57	0.60
1.2	Distribution of pre 1 October 2001 capital profits that was exempt from secondary tax on companies (“STC”) in Aplitec’s hands in terms of section 64B(5)(c) of the Income Tax Act, No. 58 of 1962 (“the Act”)	2.62	2.75
1.3	Distribution of post 1 October 2001 capital profits and current year revenue profits that was subject to STC	1.56	1.65
		4.75	5.00

2. Anticipated tax treatment of the distribution to Aplitec shareholders

2.1 The amounts of R0.57 per share and R0.60 per share in 1.1 above constitute:

2.1.1 “proceeds” in the hands of those shareholders who held their Aplitec shares as:

- “capital assets”, in accordance with paragraph 74 read with paragraph 76(1)(b) of the Eighth Schedule to the Act, and/or
- “trading stock” to the extent that these shares fall within the ambit of section 9B of the Act

when these shares are disposed of as contemplated in paragraph 77(1)(b) of the Eighth Schedule to the Act, and/or

- 2.1.2 “income”, as defined in section 1 of the Act, in the hands of those shareholders who held their Aplitec shares as trading stock, other than shares which fall within the ambit of section 9B of the Act.
- 2.2 The distributions of R2.62 per share and R2.75 per share in 1.2 above constitute pre 1 October 2001 capital profits earned immediately before the liquidation of Aplitec that were distributed during the course of the liquidation of the company. Consequently, in accordance with paragraph (a) to the “dividend” definition in section 1 of the Act, these amounts will not constitute “dividends” in the shareholders’ hands, but will instead constitute:
- 2.2.1 “proceeds” in the hands of those shareholders who held their Aplitec shares as:
- “capital assets”, in accordance with paragraph 74 read with paragraph 76(1)(b) of the Eighth Schedule to the Act, and/or
 - “trading stock” to the extent that these shares fall within the ambit of section 9B of the Act
- when these shares are disposed of as contemplated in paragraph 77(1)(b) of the Eighth Schedule to the Act, and/or
- 2.2.2 “income”, as defined in section 1 of the Act, in the hands of those shareholders who held their Aplitec shares as trading stock, other than shares which fall within the ambit of section 9B of the Act.
- 2.3 As no portion of the amount of R2.62 per share or R2.75 per share in 1.2 above constituted a “dividend” as defined in section 1 of the Act, no portion thereof will qualify as:
- 2.3.1 a deduction for STC purposes in such shareholders’ hands (where applicable) in terms of section 64B(3)(b) of the Act, or
- 2.3.2 a dividend accrued to the shareholders as contemplated in section 64B(3) of the Act.
- 2.4 The distributions of R1.56 per share and R1.65 per share in 1.3 above will:
- 2.4.1 constitute a “dividend” accrued to all Aplitec shareholders which must be included in “gross income” in terms of paragraph (k) of that definition in terms of section 1 of the Act,
- 2.4.2 be exempt from normal tax in all Aplitec shareholders’ hands in terms of section 10(1)(k)(i) of the Act. Furthermore, the exclusion from this exemption, as contemplated in section 10(1)(k)(i)(cc) of the Act, will not apply to those shareholders that held their Aplitec shares as trading stock, as such shares were not acquired by Aplitec in terms of section 85 of the Companies Act, No. 71 of 1973 as part of the liquidation process, and

- 2.4.3 qualify as a STC credit in all such shareholders' hands (where applicable) in terms of section 64B(3) of the Act.
- 2.5 Aplitec is currently in the process of liquidation but the liquidator has not yet declared in writing that no reasonable grounds exist to believe that the shareholders of the company will receive any further distributions in the course of the liquidation of the company. Consequently, Aplitec shareholders will not be regarded as having disposed of their Aplitec shares yet for capital gains tax purposes. Aplitec will, however, advise its shareholders when such declaration is made by the liquidator.
- 2.6 The tax treatment of the distribution of R1 126 103 918 to Aplitec's shareholders outlined in points 2.1 to 2.4 above has been confirmed with the South African Revenue Service based on the composition of the amounts forming part of the distribution in Aplitec's hands. This summary is, however, intended as a general guide and is not intended to constitute a complete analysis of the tax consequences for each shareholder. This summary is also not intended to be, nor should it be considered to be, legal or tax advice. Aplitec shareholders should therefore consult their own tax advisors about the tax consequences of the distribution on their personal tax positions. Aplitec and its advisors will not be responsible for the tax consequences of the distribution on Aplitec shareholders under South African law, laws of the jurisdiction of their residence, and any tax treaty between South Africa and their country of residence.