

# TAX TREATMENT OF 10cps CASH DISTRIBUTION and LSG SHARES

Lion Selection Limited (“LST”) applied to the Australian Taxation Office (“ATO”) for Class Rulings in relation to the demerger of Lion Selection Group Limited (“LSG”) by LST (“Demerger”) and the cash distribution of 10 cents per share.

On behalf of LST shareholders, LST has received preliminary verbal confirmation of the Class Rulings outcome from the ATO. The final Class Rulings will not be issued until after the transactions are completed. Although it is not anticipated to be the case, when the final Class Rulings are issued by the ATO, it is possible that they may express a view contrary to that set out in the ATO’s preliminary confirmation.

## **Treatment of distribution of LSG Shares**

Receipt of LSG shares under the Demerger will be treated as a return of capital, with no component being an unfranked dividend. The cost base of LSG shares received will be equal to the market value of the LSG shares at the time of the distribution. This is expected to be 40 cents, being the price determined by the Matching Facility as announced to the ASX on 7 December 2009.

The ATO has advised that demerger relief will not be available.

## **Treatment of Cash Distribution**

The ATO has advised that 1.25cps of the 10cps distribution will be deemed to be an unfranked dividend, with the remaining 8.75cps being a return of capital.

Please see the following worked example of the ATO’s preliminary tax treatment. An explanation of the Australian taxation implications for LST shareholders who are Australian tax residents and hold their LST shares on capital account for tax purposes is set out in Section 11 of the LST Explanatory Booklet. Tax risks and disadvantages are also set out in Section 7 of the Explanatory Booklet.

Once the ATO has made its final determination in respect of these rulings, LST will communicate the determination to shareholders via Catalpa Resources Limited and Lion Selection Group Limited.

### Example 1<sup>1</sup>

Carmel acquires 1,000 LST Shares for \$900 on 1 April 2008 (ie **Pre-transaction cost base** is \$0.90 for each LST share). For the purposes of this example it is assumed that the market value of each LSG Share at the Demerger Effective Date (ie 10 December 2009) is \$0.40<sup>2</sup>;

On 10 December 2009, Carmel receives a distribution by way of capital return of 1,000 LSG Shares (i.e. 1 LSG Share for each of her LST Shares), \$100 cash distribution (10 cps), and 1,000 Catalpa Shares, in exchange for her 1,000 LST shares.

Carmel will need to determine the cost base for her LSG and Catalpa shares to enable assessment of tax when she sells these shares:

#### Cost Base of Carmel's LSG shares

	<b>cps</b>	<b>\$</b>
Market value of LSG shares on Demerger Effective Date	40	400

#### Cost Base of Carmel's Catalpa shares

To determine the first element of the cost base of her Catalpa shares, the following calculation is made:

	<b>cps</b>	<b>\$</b>
Pre-transaction cost base for LST shares	90	900
<b>less</b> capital return of LSG shares	40	400
<b>less</b> cash distribution capital return	8.75	87.50
<b>Cost base for Carmel's Catalpa shares</b>	<b>41.25</b>	<b>412.50</b>

(The reference to 'first element' reflects the fact that LST Shareholders may have other elements affecting their cost base.)

#### Cash Distribution

Carmel will include \$12.50 (1.25cps) in her tax return as an unfranked dividend.

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<sup>1</sup> This example is based on the ATO's preliminary, and non-binding, confirmation of the tax outcomes for Lion's class ruling requests, and is applicable for Lion Selection Shareholders who are residents of Australia for tax purposes and who hold their Lion Selection Shares, and the resulting shares in LSG and Catalpa, as capital assets.

<sup>2</sup> This amount, being the matching facility price of LSG Shares, has been used for the purposes of this example. It should be noted that the Commissioner of Taxation may require Lion Selection Shareholders' tax returns to be prepared on a different basis. Further details will be provided to Lion Selection Shareholders in due course.