



12 December 2019

CAPE CONSUMERS PROPRIETARY LIMITED
(Registration number:1955/003218/07)
("Cape Consumers" or "the Company")

**NOTICE TO THE BUYERS OF CAPE CONSUMERS REGARDING THE
PROPOSED SALE OF THE COMPANY'S ADMINISTRATION BUSINESS**

BACKGROUND

The Company, with the support of its buyers ("Buyers"), has built up a secure and successful business since 1947.

Market changes and the increasing average age of Buyers have resulted in the Company, as most of the other buy-aid organisations, being under enormous pressure to offer a competitive value proposition in order to retain existing Buyers, attract new Buyers and entice Buyers to increase the use of the Company's card when doing household and other purchases.

A summary of key financial and other metrics indicating the effect of the above on the Company is set out in the appendix. This clearly shows the enormous challenge faced by the Company with limited growth in turnover and increasing operating costs, which lead to a decline in the bonus that can be paid to Buyers.

In reaction to the changes experienced, different strategies were developed by the Company over the last few years to ensure survival and growth:

- The Company reviewed and renewed the customer value proposition (CVP) offered to the Buyers under the bsmart brand.
- The Company appointed suitably skilled people that can contribute to delivering a more professional image and service.
- In the last two years, there has been a greater awareness of opportunities in non-traditional business. The Company is ideally positioned to pursue White Label opportunities by offering our administrative services to third parties. The benefits of the White Label offerings are that we can leverage from the business ideas and initiatives of other business partners and their brand/image and customer base and hence reduce the cost of acquisition considerably. White Label agreements were entered-into with Sanlam Reality and School-Days. The Sanlam Reality agreement was recently terminated.

- Investment in technology solutions was made not only to improve operations but to project a pro-active and modern offering that can compete with the other players in the market for the younger and higher-income segment. This included the development of a mobile app, a real-time electronic application process linked to a credit scoring model, an interactive website, and electronic statements.
- A new card issuing and card management system was commissioned. Co-Switch, a joint venture between lemas Financial Services ("lemas") and the Company, was established to provide a reliable, secure, proven and cost-effective alternative to our previous system that could support growth plans through:
 - Additional functionality and security through pin enablement
 - Flexibility for innovative product development (including pre-paid options)
 - Online shopping capability
 - Ability to transact with any bank or payment services provider

PROPOSED SALE OF THE CARD ADMINISTRATION BUSINESS OF CAPE CONSUMERS

In addition to the strategies discussed above, the Board of Cape Consumers ("the Board") has investigated closer collaboration with other buy-aid organisations to explore ways to reduce the administration cost per Buyer through economies of scale. With this in mind, the Board entered into discussions with lemas, which led to a proposal to sell the back-office administration operations of the Company to Ibelong Rewards (Pty) Ltd ("Ibelong"), a 100% subsidiary of lemas. If the proposed transaction is concluded, Ibelong will enter into a card administration service agreement ("SLA") with the Company in terms of which Ibelong will in future administer the card operations of the Company for an agreed fixed fee per Buyer per month.

lemas is a co-operative that first opened its doors in 1937 and is the largest financial services co-operative in South Africa. lemas employs 500+ people, do business from more than 29 offices countrywide and has agreements with more than 600 employers in South Africa, which allow them to offer employees a range of comprehensive financial products and services, including vehicle finance, personal loans, educational loans, pension-backed loans, a purchase card (same as our bsmart card), and comprehensive insurance solutions.

Ibelong will enter into a similar SLA with lemas (as is envisaged for the Company) to administer the buying card business of lemas, who will in turn strive to expand their own buying card offering to those members of lemas that are not yet buying card members, in order to create economies of scale.

Cape Consumers will retain the current relationship with all its Buyers and contracted retailers. There will be no disruption in our service, with the only (and for Buyers invisible) change being that the administration previously done in-house, will now be outsourced to Ibelong in terms of the SLA.

The intended consequences of the transaction for Buyers of the Company are, amongst others, a more cost-effective administration service, which is expected to result in increased bonuses to Buyers and access to more product offerings through lemas.

The proposed transaction will not hinder any of the current benefits to which Buyers are entitled to. In other words -

- all Buyers will still be able to shop with their bsmart cards at all existing and newly contracted retailers;
- the payment of bonuses shall continue and is expected to increase over time with a possibility of an additional bonus payment early 2020;
- the Company's current employees and management will be retained, albeit in another legal entity which should ensure a continuity of service and expertise.

The salient provisions of the sale agreement are:

1. The assets of the Company, excluding the amounts owing to Cape Consumers by Buyers and cash in banks, will be sold to Ibelong at the book value thereof which is expected to be approximately R10 million at the effective date of the proposed transaction;
2. Cape Consumers will settle all its liabilities incurred before the effective date;
3. Cape Consumers will retain its agreements with retailers and will remain responsible for the settlement of purchases of Buyers to the retailers;
4. All the staff of Cape Consumers will be transferred to Ibelong;
5. Ibelong will be responsible for all operating expenses after the effective date;
6. Ibelong will enter into a card administration service agreement ("SLA") with Cape Consumers;
7. Ibelong will recover an agreed fee per Buyer per month from Cape Consumers which fee will be subject to a discount for the first three years after the transaction thereby passing on to Cape Consumers Buyers the expected benefits of economies of scale;
8. The purchase price for the assets sold to Ibelong will remain will be invested with lemas at favourable interest rates in the form of a loan to lemas. The loan will be repayable to Cape Consumers in terms of a repayment schedule. lemas will provide a guarantee for the amount owing in favour of Cape Consumers.

The intention is to finalise the proposed transaction early in 2020 , but it is subject to certain regulatory approvals that need to be obtained, including Competition Commission approval, which may affect the planned timeline.

BUYER PARTICIPATION

In terms of the Memorandum of Incorporation of Cape Consumers, the Board of Cape Consumers are the Shareholders of the Company and as such, are entitled to adopt the necessary resolutions to approve and implement the proposed transaction. In the

interest of good governance, the Board and the Shareholders have resolved to request the views of Buyers on the proposed transaction.

In order to provide the opportunity to as many Buyers as possible to express their views on the proposed transaction, Buyers will be given an opportunity to exercise a vote in respect of the proposed transaction by electronic voting through email or SMS (for those Buyers that do not have email functionality).

In addition to the above, the Board will conduct a meeting for Buyers where more information will be provided to those who may require such additional information.

The above meeting will take place on **Tuesday, 14 January 2020 at 10h00 at Cape Consumers (bsmart) offices, 3rd floor, Atlantic Centre Building, 14 Christiaan Barnard Avenue, Cape Town.**

WHY BUYERS SHOULD SUPPORT THE PROPOSED TRANSACTION

A summary of the benefits to be derived by the proposed transaction are as follows:

- Assets are realising its current book value. As the predominant part of our assets consist of IT systems, it does not have a real value in the open market.
- The agreements with current retailers remain in place, which will allow Buyers to continue to use their bsmart card in a normal manner.
- The current staff will be transferred to the new Company, as will the existing administrative systems and procedures. You can, therefore, rely on the same way of communicating with the same friendly and knowledgeable staff as now.
- With both the Company and lemas using the services of Ibelong, the unit cost of processing transactions will be reduced. This should result in higher bonus payments in the near future (according to our calculations) and should protect the Company against a further deterioration in membership.
- Capital received for the sale is protected by a guarantee offered by lemas, which will secure the reserves of the Company.
- A more extensive range of products and services will become available to Buyers through lemas.
- The Board will continue to serve the best interests of the Company's Buyers and are of the view that the proposed transaction will enhance this commitment.

You can vote for or against the proposed transaction as follows:

1. Electronic submission via email

- Send an email to company.secretary@bsmart.co.za with your vote:
 - YES, I support the proposed transaction; or
 - NO, I do not support the proposed transaction
- Include the word "VOTE" and your member number in the subject line.

OR

2. By sending an SMS to 32005

Please start your SMS with the word VOTE followed by your member number and your vote "YES" = I support the proposed transaction" or "NO" = I do not support the proposed transaction.

Example: "VOTE 347685 YES" or "VOTE 347685 NO"

You may vote via either of the above methods up to **Tuesday, 14 January 2020 at 17h00.**

Thank you for your continued support, and we look forward to sharing this exciting phase with you.

JA van Tonder CA(SA)

Chairman: Cape Consumers (Proprietary) Limited

Appendix

Year to 6 July	2014	2015	2016	2017	2018	2019
Turnover (Rand)	1,038,831,079	1,067,227,976	1,061,581,726	1,094,775,088	1,136,173,070	1,061,016,973
Discounts received from merchants (Rand)	28,805,300	30,601,356	27,7401,86	28,469,332	29,151,001	27,111,523
Administration costs (Rand)	28,085,040	31,398,441	35,457,590	42,142,614	44,082,314	37,771,613
Amount available for distribution to Buyers (Rand)	35,214,930	36,993,384	29,739,724	26,249,201	25,839,819	26,782,689
Amount distributed to Buyers as bonus (Rand)	36,011,715	37,276,614	33,724,740	29,163,046	31,894,638	27,591,020
Bonus % on qualifying turnover	4%	4%	3.5%	3.0%	3.0%	3.0%
Buyers Reserve fund at year end (Rand)	36,922,098	35,121,299	29,654,179	25,472,479	18,246,908	16,246,937
Number of Buyers at end of the financial year	22, 219	21, 537	20, 891	24,759	27, 678	20, 986