

Cypher (1)

GBL
182

MEMORANDUM
in support of an
application to the
SOUTH AFRICAN RESERVE BANK
by
CORPCAPITAL (PTY) LIMITED
(a subsidiary of CORPCAPITAL LIMITED)
for approval to make a
new investment abroad

11 November 1998

1 **SUMMARY**

The applicant seeks approval to make a new investment of US\$600,000 through a wholly owned British Virgin Island registered subsidiary which will deploy the funds to acquire 50% of the share capital in and provide loan capital to Global Admin UK Limited ("Global Admin"), a UK registered company which provides technology, management and marketing services for "on-line" electronic cash transactions on the Internet.

The investment will be made over a period of three months.

The applicant reasonably anticipates a 100% return on its investment within three years and thereafter continuing benefits exceeding R5m per annum.

2 **THE APPLICANT AND OTHER RELEVANT PARTIES**

- 2.1 The applicant is Corpcapital (Pty) Limited a subsidiary of Corpcapital Limited, a public company the shares in which are listed on the Johannesburg Stock Exchange in the Development Stage Sector.
- 2.2 Corpcapital's current market capitalization exceeds R1 billion. Corpcapital's current and intended activities appear from the diagram annexed as Exhibit 1.
- 2.3 The new investment for which this approval is sought constitutes an integral part of Corpcapital's Specialised Outsourced Services Division which will provide, to Commerce and the Formal Banking Sector,

specialised financial services through focused business units in close partnership with management.

The Specialised Outsourced Services Division currently provides and is in the process of establishing a wide range of services which include:

- credit control and debt administration services to most of the major South African banks and retailers;
- short term insurance underwriting and claims management services;
- trust management services;
- electronic commerce services ("E-Commerce") including on-line securities trading, on-line hotel booking and information services, anti-virus and computer access/security systems, on-line interbank and commercial banking services and, subject to approval of the new investment, the operation, administration, management and marketing of electronic cash transaction capacity through the Internet.

2.4 It is widely recognised that whilst E-Commerce currently has limited product application it is inevitably poised to become a world dominant commercial transaction medium. Corpcapital seeks to position itself strategically to be able to offer services to users of the medium. The services will comprise: data capture and storage; administration and management of transactions; marketing services and advice; telecom and Internet help-lines for consumers and commerce; data analysis services; regulatory compliance services.

E-Commerce will only thrive if transactions are fully compliant with banking and regulatory standards. Cross-border transactions must comply with applicable Exchange Controls. The services to be provided by Corpcapital will augment compliance and access to supporting documents by providing secure data controls and enhanced administration capability. The process will be enhanced by Corpcapital's stringent internal audit reviews.

2.5 Global Admin was incorporated according to the laws of England and Wales during September 1997. It conducts its activities from Unit 21, Spectrum House, 32-34 Gordon Road, Gospel Oaks, London. Its executive directors are two former South African Chartered Accountants, Tal Harpaz and Sean Rose both of whom have extensive administrative and managerial experience and insight into worldwide E-Commerce opportunities through their understanding of the Internet as a commercial medium and their wide network of contacts in that industry.

Global Admin does not originate software or systems facilitating Internet transactions. These exist widely. Global Admin offers the administrative services required to enhance such systems' commercial usability and regulatory compliance.

2.6 Harpaz (28) has Bachelor of Commerce and Accountancy degrees from the University of the Witwatersrand. He completed his auditing articles with Fisher Hoffman & Sithole, specialising in audits of large listed companies. He thereafter, as consultant, developed the internal accounting controls and software application programmes for Sizwe Medical Aid and conducted corporate finance consulting services. For the past year, as consultant, he has designed and implemented for Abbey National Bank Plc, London, its report generation system for bank compliance procedures.

Rose (28) has Bachelor of Commerce and Accountancy degrees from Unisa. He completed his audit articles with Coopers & Lybrand, primarily involved in audits of public quoted companies and corporate finance services. He left Coopers & Lybrand to join Glencor International in their head-office in Baar, Switzerland where he traded non-ferrous metals internationally.

Harpaz and Rose have left secure employment to establish Global Admin, with total belief in and commitment to its success.

2.7 Global Admin is in the process of negotiating administration, management and marketing agreements for the following business activities to be conducted through the Internet:

- on-line music distribution;
- on-line pharmaceutical product distribution;
- on-line book distribution;
- on-line distribution of African curios;
- on-line casinos.

Global Admin has identified on-line casinos as one of, if not the most, prodigious current users of electronic cash through the Internet. It is therefore the ideal platform to develop systems and from which to launch Global Admin's services to a wider range of E-Commerce users in order to be positioned at the forefront of the E-Commerce industry as it expands into a wider range of products.

185
A CBL

3 THE INTENDED TRANSACTIONS

- 3.1 Subject to approval the applicant has agreed to subscribe for new shares in Global Admin which will be equal to 50% of its total issued capital for a nominal consideration and simultaneously to invest in Global Admin by way of a loan, the sum of US\$560,000.
- 3.2 For the sake of administrative convenience and tax efficiency certain of the activities of the intended venture will be conducted through legal entities established in appropriate international jurisdictions in collaboration with Global Admin on the basis of an equal shareholding. It is anticipated that the applicant's share of the establishment and administration costs arising from these entities will be approximately (and will not exceed) US\$40,000.
- 3.3 It is proposed that the applicant will hold its shareholding in these various entities ("the Global Admin Group") through a wholly owned subsidiary registered in the British Virgin Islands ("Holdco").
- 3.4 The applicant's loan of US\$560,000 will be advanced expeditiously after obtaining approval, in any event by not later than the end of the third month following approval. The loan will be secured by the underlying assets of the Global Admin Group and will be repaid as a first charge against cash flow in excess of cash needed to meet the day to day creditors and operational requirements of the Group. The applicant has the discretion to extend the loan from time to time if apt for the purposes of expanding the business of the Group, based on satisfactorily researched and motivated business plans.
- 3.5 It is a condition of the transaction that Harpaz and Rose are bound in favour of the Global Admin Group to remain in its full-time employ for at least three years and not to compete in any way with its activities for the duration of their employment and for two years following termination of their employment for any reason. The applicant recognises that Harpaz and Rose provide intellectual capital which is critical to the success of the venture and integral to the development of the whole of the applicant's E-Commerce strategy.
- 3.6 Exhibit 2 annexed hereto is a schematic representation of the intended Global Admin Group structure following implementation of the new investment.
- 3.7 Exhibit 3 annexed hereto is a pro forma consolidated balance sheet of the Global Admin Group following the new investment and projected forward for five years.
- 3.8 Exhibit 4 annexed hereto is a projection of anticipated income and expenditure of the Global Admin Group over the forthcoming five years.

- 3.9 Exhibit 5 annexed hereto is a projected cash flow statement for the Global Admin Group for the forthcoming five years and a calculation of Corpcapital's projected return.
- 3.10 The exhibits demonstrate the anticipated repayment of the loan in full during 2001 and an annual return to the applicant from its investment exceeding R5m per annum thereafter.
- 3.11 The financial projections aforesaid are based on the Global Admin Group's limited activities relating to the administration, management and marketing of currently identified products and all of the electronic cash transactions arising therefrom. For the purposes of these projections no account has been taken of the benefits anticipated from Global Admin's intended entry into various other E-Commerce opportunities under negotiation and no account has been taken of the ancillary benefits which the applicant will derive from its ability to offer the services and functionality of the Global Admin Group to Corpcapital's South African investments in the E-Commerce industry and to the customers of those investments.
- 3.12 ~~Global Admin operates out of London because of its sophisticated banking, postal and communication infrastructure. The current computer server and software is physically located in Curasao in the Netherlands Antilles under the authority of an appropriately regulated licence.~~
- 3.13 Global Admin has concluded a software supply and technical support contract with MicroGaming Systems which currently operates several highly successful on-line Internet casinos. Global Admin has also concluded a servicing agreement with VR Services which will provide ongoing advice relating to the marketing and operation of the services. VR Services provides marketing and operating services to existing successfully-established Internet service and product providers. These agreements are conditional on the approval hereby sought. They will augment the technological, administrative and managerial capacity of Harpaz and Rose to expedite and ensure the success of the venture.
- 3.14 Global Admin recognises the need to ensure that its services and the activities of its customers comply with all applicable laws and regulations. Casino transactions will only be offered in those territories where it is legal to do so. The system includes a screening process to identify and exclude potentially illegal trades. Regulatory controls such as the completion/verification of Forms A & E will be enhanced.
- 3.15 Global Admin has identified Europe and the Middle East as its primary market given the high incidence of computer and Internet literacy and access. The websites designed by Global Admin are language and territory specific and promotion and marketing will initially be focused in

187
481

those regions.

- 3.16 Harpaz and Rose have retained extensive business contacts in South Africa. Having established Global Admin's credibility, they will with Corpcapital's assistance vigorously exploit the export of South African products and services through the Internet. Exploratory discussions demonstrate excellent prospects.

The skills and systems developed by Global Admin will be made available within South Africa to improve and expand trade through the Internet both by means of exports and internally.

4 PRECIS OF THE E-COMMERCE OPPORTUNITY

- 4.1 Trade in products and services through the Internet represents one of the most significant growth markets of the new millennium. Analysts believe that there are 700,000 active Internet users in SA today, predicting an increase to 2 million users by 2002.
- 4.2 In order for the applicant to provide a full suite of Outsourced Specialised Financial Services it is necessary that it is an early entrant in the race to provide the financial and related services necessary to trade in products and services through the Internet.
- 4.3 Currently E-Commerce has limited application. Offerings are predominantly financial products. The Internet is an ideal medium for financial products as it avoids the large capital investment of land based facilities and allows customers to participate at their own convenience. It requires no physical transport of product to the customer and provides an opportunity to explore and perfect the processing of electronic cash transfers and the technical and regulatory support thereof.
- 4.4 It is reliably estimated that currently US\$400 million per annum is transacted in gaming on the Internet. It is predicted that the value of transactions will grow to US\$10 billion by the year 2000. This industry is in its infancy and presents an opportunity to establish customer loyalty and consequently a natural capacity to offer E-Commerce facilities relative to a wider range of products and services.
- 4.5 The Internet casino enables Global Admin, and through it the applicant, to establish a platform to develop expertise and essential relationships with customers, products and service providers in offering E-Commerce facilities.
- 4.6 The resulting data base and expertise will be used to achieve extensive potential for distribution of other products and services already identified by the applicant to include:

- on-line export and distribution of African curios from South Africa;
- on-line promotion of African tourism;
- on-line hotel and tourist booking facilities;
- on-line media content production facilities unique to South Africa (TV, movie, advertising);
- on-line South African securities trading, information and advisory services;
- on-line anti-virus and computer access security systems and services in particular the export of South African proprietary products;
- bank to bank and bank to customer encryption systems;
- on-line "Billboard" and banner advertising services;
- business to business payment systems.

4.7 All settlement procedures will be consistent with prevailing best banking practice, in particular to ensure compliance with regulations governing foreign currency transfers.

5 THE IMPORTANCE OF GLOBAL ADMIN TO CORPCAPITAL'S E-COMMERCE STRATEGY

5.1 Corpcapital is committed to establish itself as a significant provider of E-Commerce facilities. It recognises that in order to do so it is critical to harness the intellectual capacity of the emerging generation of innovative but financially disciplined professionals who have grown up within the explosion of Information Technology and have the capacity and confidence to compete globally.

5.2 Corpcapital's strategy is to acquire E-Commerce businesses and interests in E-Commerce businesses which contain such intellectual capacity with a view to developing those businesses synergistically in partnership with management. Corpcapital will enhance the scope and prospect of these businesses by providing capital, corporate management, strategy, financial and business systems controls and overall coordination.

5.3 The proposed investment in the Global Admin Group is one integral part of Corpcapital's strategy which includes:

- 5.3.1 The acquisition of a strategic minority shareholding in TCO, a JSE listed IT company, through which it enjoys close cooperation and access to the intellectual capacity of a highly successful management team.
- 5.3.2 The acquisition of a strategic minority shareholding in Securedata Solutions Limited, a successful private company which supplies and services leading franchised and its own proprietary computer anti-virus and computer access security systems and services. This investment reinforces Corpcapital's relationship with TCO (there being other co-investors in both companies) and provides additional access to technology and intellectual capacity. This investment is due to be listed on the JSE this year.
- 5.3.3 The establishment of a strategic alliance and joint venture with Softline, one of South Africa's most successful IT providers, listed on the JSE which also has a strong global presence. This alliance will afford to Corpcapital's E-Commerce strategy credibility within the industry to realise its aspirations.
- 5.3.4 The acquisition of a controlling shareholding in Trans Atlantic Securities, a company specialising in investments in and development of the IT industry. Management of Trans Atlantic Securities is highly regarded in the IT industry having access to extensive deal-flow and the capacity and experience to assess and manage investment opportunities.
- 5.3.5 Investment in Finestra Travel Directories, a greenfields project in the process of developing Internet based in-bound hotel and tourist booking facilities. The directory and booking facility will be enhanced significantly by payment transfer capacity and the supply of South African travel related financial services (travel insurance, medcare, car hire, temporary mobile telephone etc).
- 5.3.6 The acquisition of a strategic shareholding in Bankgate, a private company which has devised software and developed transactional capacity to effect secure bank, business to bank and business to business payment systems which have achieved global recognition and acceptance, compliant with regulatory and best banking procedures.
- 5.3.7 The extension of the advertising activities of associated company Corpcom Limited which is listed on the JSE and has the same parent (Corpgro Limited) to include on-line advertising through the Internet exploiting Corpcom's extensive know-how and existing customer relations. The applicant aims to consolidate and de-fragment the on-line advertising industry in line with the achievements of Corpcom in the outdoor advertising industry.

- 5.4 Harpaz and Rose have the capacity to address the full breadth of E-Commerce opportunities and realise the aspirations expressed in 3.16 above. They will develop their efforts in collaboration with Corpcapital and its various other investments into the E-Commerce industry. Global Admin's facilities in London (in particular, but not only, its telcom and Internet call-centre and help-line facility) will provide a suitable physical platform for the other participants in Corpcapital's E-Commerce strategy to launch their products and services globally.
- 5.5 Corpcapital intends to initially hold its interests in the E-Commerce industry in a private equity fund. When the investments have reached an acceptable degree of maturity it is intended that the investment will, through suitable means, be listed separately on the JSE. This will facilitate the continued attraction of the best available intellectual capital and will afford the various businesses within the Group a public profile which will enable them to achieve their optimum capacity.

6 OTHER BENEFITS

6.1 Return on Investment

~~As previously mentioned the applicant anticipates a 100% return on the new investment within three years and thereafter continuing benefits exceeding R5m per annum. The applicant's auditors have reviewed these calculations and expressed their satisfaction that they are fair and reasonable given the assumptions recorded therein.~~

The return is based only on current licenced activities. Because these will represent only a part of the Global Admin Group's activities, it is expected that the applicant's return on investment will be significantly greater.

The applicant has confidence not only in the intellectual capacity and information technology know-how of Harpaz and Rose but also in their commercial acumen, financial discipline and extensive South African business networks.

6.2 Export Opportunities

The database and transaction capacity which will be developed by the Global Admin Group as a necessary consequence of its other activities will enable it to offer opportunities to South African suppliers of products and services globally through the Internet.

6.3 UK Office

Not only will Global Admin's UK office be available to Corpcapital's

other investments in E-Commerce but it will also facilitate the provision of facilities to other South African suppliers of products and services into the global market through the utilisation of Global Admin's physical presence and facilities such as its call centre, hardware capacity and administrative capacity. Global Admin will make these services available on a contractual basis to South African global suppliers thereby enhancing their ability to compete successfully.

7 APPROVAL SOUGHT

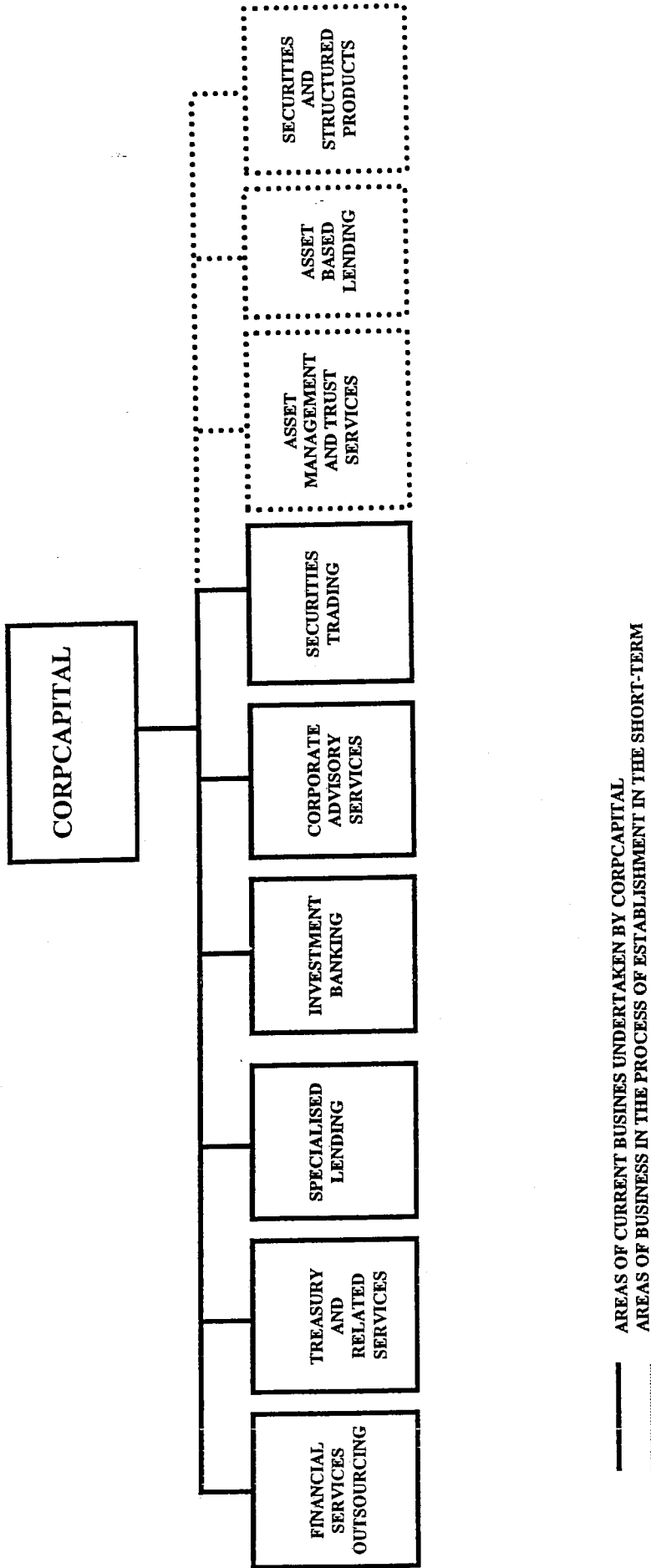
The applicant seeks approval:

- 7.1 To establish as a wholly owned subsidiary Holdco and to invest in its capital the sum of US\$600,000.
- 7.2 To procure that Holdco will acquire 50% of the share capital in the Global Admin Group for nominal consideration and simultaneously advance to Global Admin the sum of US\$560,000:
 - 7.2.1 to be utilised by Global Admin for the purposes outlined in this memorandum;
 - 7.2.2 to be advance to Global Admin expeditiously but in any event by not later than the end of the third month following this approval;
 - 7.2.3 to be repaid by Global Admin as a first charge against cash flow in excess of cash needed to meet the day to day creditors of the Global Admin Group;
 - 7.2.4 to be secured by a suitable pledge of the underlying assets of the Global Admin Group.
- 7.3 To expend the remaining US\$40,000 as its contribution for the establishment and administration costs of the entities comprising the Global Admin Group.

**Corpcapital Limited
Johannesburg**

192 3

CORPCAPITAL LIMITED - ORGANOGRAM

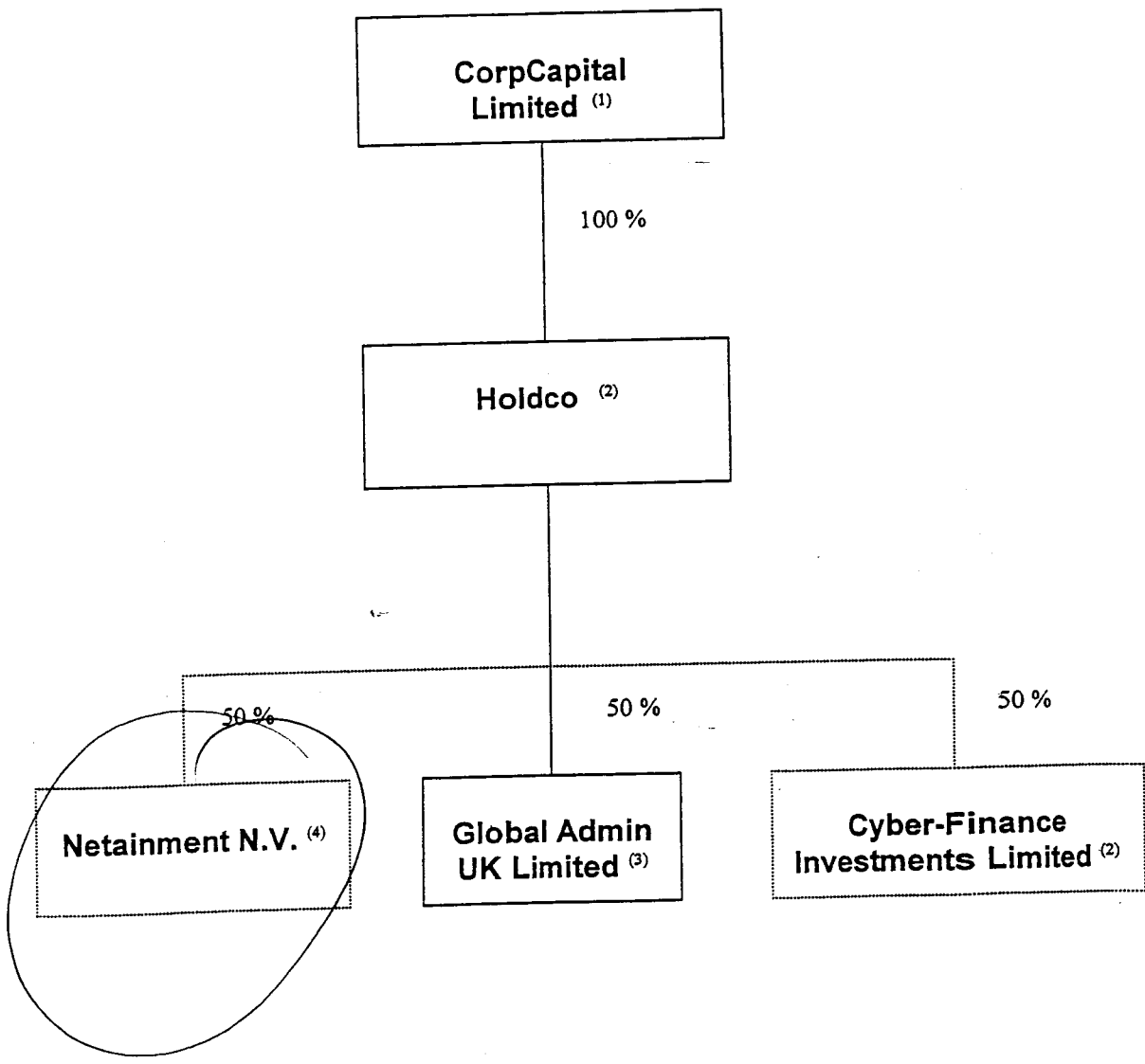


194³

195¹⁸³

Exhibit 2

GLOBAL ADMIN GROUP STRUCTURE



- (1) Registered in South Africa
- (2) To be registered in the British Virgin Isles
- (3) Registered in the United Kingdom
- (4) Registered in the Netherlands Antilles
- In the process of being established

196 ²/₃ |

olentson