

Capricorn Society Limited

(ACN 008 347 313)

INFORMATION MEMORANDUM INCORPORATED BY REFERENCE IN PROSPECTUS DATED 7 DECEMBER 2011 ISSUED BY CAPRICORN SOCIETY LTD TO RAISE UP TO \$15,000,000

1 SUMMARY

This information memorandum provides information about Capricorn Society Limited (ACN 008 347 313) (“**Capricorn**”) and other members of the Capricorn Group.

It is intended that this information memorandum is incorporated by reference pursuant to section 712 Corporations Act 2001 (Cth) into the prospectus dated 7 December 2011 issued by Capricorn to raise up to \$15,000,000 (**Prospectus**).

This information memorandum provides information on the following matters supplemental to information provided in the Prospectus:

- Business Overview of Capricorn and its Related Companies;
- Chief Executive Officer Profile; and
- Risks Specific to the Operations of Capricorn and General Risk Factors

Unless otherwise stated, defined terms used in this information memorandum have the same meaning as provided in the Prospectus.

2 BUSINESS OVERVIEW OF CAPRICORN AND ITS RELATED COMPANIES

2.1 Capricorn

Capricorn is a public company limited by shares registered in Western Australia with operations throughout Australia, New Zealand and South Africa. Capricorn operates branches in New Zealand and South Africa. It has operated in New Zealand since 1997 and South Africa since 2000. Its head office is located at 172 Burswood Road, Burswood, Perth, Western Australia.

Capricorn acts as an intermediary in the automotive industry by facilitating purchases by its Members (which are all from automotive and allied industries and are typically independent general repairers and specialist technicians and mechanics who comprise an essential part of the aftermarket repair industry) from its Suppliers (which include leading automotive suppliers).

Capricorn’s core business activity is the provision of Accounts to Members which offers them instant credit with Capricorn for purchases from Suppliers or from Capricorn and its related companies.

Further detail about the Accounts and the corporate structure of Capricorn and its related companies is provided in the Prospectus.

Capricorn also provides loans to Members to fund the purchase of capital equipment through its range of CAP ezi-finance products. These loans constitute a minor operating activity of Capricorn. The majority of other financial services provided are through Capricorn Society Financial Services Pty Ltd (described below). Revenue received from providing these loans is included as part of the \$9,849,275 of revenue reported by Capricorn in the Financial Services business segment in its Annual Report for the year ended 30 June 2011.

The activities of Capricorn's related companies are set out in the following sections.

2.2 Capricorn Mutual Limited

Capricorn Mutual Ltd (ACN 104 601 194) (**Capricorn Mutual**) is a public company limited by guarantee. It is a subsidiary of Capricorn by reason of Capricorn's power to appoint the majority of directors of Capricorn Mutual. It is not part of the Capricorn Group for financial reporting or tax purposes.

Membership of Capricorn Mutual is available to Members of Capricorn, Qualified Trial Members and other Authorised Purchasers. Members of Capricorn are not required to be members of Capricorn Mutual. Capricorn Mutual provides its members with risk protection services, an alternative to insurance, for personal and business risks on a discretionary basis. As the risk protection services provided by Capricorn Mutual are classified by ASIC as 'Miscellaneous Mutual Risk products', Capricorn Mutual holds an Australian Financial Services Licence (Number 230038).

Further information about the Protections is set out in Capricorn Mutual's Product Disclosure Statement (including any Supplementary Product Disclosure Statement(s)) relating to the Protections.

Capricorn has provided financial support to Capricorn Mutual. It has also entered into a Scheme of Arrangement Agreement with Capricorn Mutual under which, if implemented, Capricorn Mutual will become a wholly owned subsidiary of Capricorn.

Further details about the financial support provided to Capricorn Mutual and the Scheme of Arrangement Agreement are provided in the Prospectus.

2.3 Capricorn Mutual Management Pty Limited

Capricorn Mutual Management Pty Ltd (ACN 129 143 479) (**CMM**) is a wholly owned subsidiary of Capricorn through Capricorn Society Financial Services Pty Ltd.

CMM was established to provide mutual management services to Capricorn Mutual. CMM has been appointed by Capricorn Mutual to manage its business and to assist in the handling of claims by Capricorn Mutual members. CMM and its employees are authorised representatives of Capricorn Mutual (Australian Financial Services authorised representative number 324456). Details of the financial services that CMM is authorised to provide on behalf of Capricorn Mutual are set out in CMM's Financial Services Guide.

CMM receives a fee from Capricorn Mutual for providing these services, which is included as part of the \$9,849,275 of revenue reported by Capricorn in the Financial Services business segment in its Annual Report for the year ended 30 June 2011.

CMM has engaged Regis Mutual Management Ltd (UK Company Number 14194000) (**Regis**), a specialist mutual management company incorporated in the United Kingdom, to assist in the management of Capricorn Mutual through the provision of, amongst other things, technical and know-how. Regis receives an agreed fee for the services it provides to CMM.

2.4 Capricorn Society Financial Services Pty Ltd

Capricorn Society Financial Services Pty Ltd (ACN 129 134 667) (**CSFS**) is a wholly owned subsidiary of Capricorn and holds an Australian Credit Licence under the *National Consumer Credit Protection Act 2009* (Cth) (Licence Number: 391626).

CSFS acts as both an introducer and a broker to provide Members with access to levels of credit and debt funding that cannot appropriately be provided by Capricorn directly through Member accounts or direct financing activities. For example, if members need access to longer term financing of high value capital equipment. These activities constitute a minor operating activity of Capricorn and revenue received from providing these services is included as part of the \$9,849,275 of revenue reported by Capricorn in the Financial Services business segment in its Annual Report for the year ended 30 June 2011.

Through CSFS Capricorn entered into a joint venture with RMML Australia Pty Ltd (ACN 130 811 960) to incorporate and operate Regis & Partners Pty Ltd (ACN 130 820 727) ("**RAP**"). Capricorn through CSFS holds 50% of the issued shares in RAP pursuant to a joint venture agreement entered into with RMML Australia Pty Ltd (ACN 130 811 960) ("**RMML**") a subsidiary of Regis. The joint venture was formed to manage, grow and develop new and existing mutual organisations in Australia.

RAP holds an Australian Financial Services Licence No 338156.

Both CSFS and RMML receive distributions determined by reference to the profits of RAP, as set out in the terms of the joint venture agreement.

The activities of RAP constitute only a minor operating activity of Capricorn.

2.5 Capricorn Travel Australia Pty Ltd

Capricorn Travel Australia Pty Ltd (ACN 008 926 645) (**Capricorn Travel**) is a wholly owned subsidiary of Capricorn and a licenced travel agency under the *Travel Agents Act 1985* (WA) (Licence Number: 9TA164).

It provides travel services to Members, Suppliers, Capricorn employees and also the general public (within Australia only). The business began as an extra service for the Members and remains a minor operating activity of Capricorn.

Capricorn Travel is a member of the Australian Federation of Travel Agents. In 2011 it received the "Travellers Choice" Bronze award and it has received the "Travellers Choice" Silver award for the previous four consecutive years.

Revenue received by Capricorn Travel was \$156,287 in the year ended 30 June 2011 as reported by Capricorn in the Travel business segment in its Annual Report.

2.6 Capricorn Technology Services Pty Limited and iNeedAService Pty Limited

Capricorn Technology Services Pty Ltd (ACN 140 317 942) (“**CTS**”) is a wholly owned subsidiary of Capricorn and was established to deliver Capricorn’s technology services strategy.

Through CTS Capricorn entered into a joint venture with Anthem Software Pty Ltd (ACN 097 726 497) (“**Anthem**”) to incorporate and operate iNeedAService Pty Ltd (ACN 140 447 338) (“**INAS**”), in which Capricorn is the majority shareholder holding 51% of issued shares.

INAS was formed to manage, grow and develop web based technology services to the automotive industry in Australia and New Zealand and any other industry agreed to by the parties.

INAS has launched and operates online car booking services available to members of the public which list the automotive businesses of Members and Qualified Trial Members and other Authorised Purchasers.

The activities of CTS are currently limited to holding the shares in INAS and constitute a minor operating activity of Capricorn.

2.7 Capricorn Management Services Pty Ltd

Capricorn Management Services Pty Ltd (ACN 111 632 789) (“**CMS**”) is a wholly owned subsidiary of Capricorn. It is positioned to provide management and consulting services to affinity groups and other small to medium enterprises in any industry as part of any diversification opportunity Capricorn considers may enhance revenue or mitigate business risk.

CMS is not currently active.

2.8 Social Business Australia Pty Ltd

Social Business Australia Pty Ltd (ACN 142 242 108) (“**SBA**”), a wholly owned subsidiary of Capricorn, was established to assist all forms of social business to develop and grow in the competitive environment of the real economy. Social businesses trade or undertake activities for social purpose and apply profit or surpluses to social benefit. SBA provides a platform for developments in the national and international social business movement to be shared with the Australian business community, the public and the media.

The activities of SBA constitute only a minor operating activity of Capricorn.

2.9 IYC 2012 Secretariat Ltd

IYC 2012 Secretariat Ltd (ACN 148 863 932) (“**IYC 2012**”) is a company limited by guarantee.

Currently Capricorn is the only member of IYC 2012.

IYC 2012 is not part of the Capricorn Group for financial reporting or tax purposes.

IYC 2012 was established to demonstrate the values of social businesses, such as co-operatives and mutuals, by promoting such models for the benefit of the broader community, in particular in association with the United Nation's 2012 Year of the Co-operative.

3 CHIEF EXECUTIVE OFFICER PROFILE

Capricorn's Chief Executive Officer ("**CEO**") is Greg Wall (MA, FAICD)

Greg was appointed as CEO effective 22 August 2011.

Greg has significant CEO/Managing Director experience in Financial Services with over 11 years as CEO of Statewest Credit and two years as Managing Director of Home Building Society (HBS).

Greg held executive roles with Challenge Bank including Head of Marketing and State Manager for Western Australia where he led 700 staff in 40 branches and managed \$4 billion in assets. Since Bank of Queensland acquired HBS in 2008, Greg has been consulting as well as carrying out directorship duties for a number of Boards.

Greg has had exposure to a range of businesses through his consulting and directorship roles in the automotive and heavy equipment sectors. He has also been exposed to Capricorn through serving as a Director on Automotive Holdings Group Ltd. As at the date of this information memorandum, Greg's past and current Board Directorship positions include:

- (a) Automotive Holdings Group Ltd, previous Director and Chairman of Audit Committee (2005 – 2011);
- (b) Previous Chairman, Freo Group Ltd (2009 – 2011) (A privately owned mining services and construction group);
- (c) Western Australian Football Commission (2009 – 2011)
- (d) Ear Science Institute of Australia (2008 – 2011);
- (e) Gold Estates of Australia (2000-2010);
- (f) CUSCAL (2001-2006); and
- (g) Edith Cowan University (1990-1995).

Greg has a Master of Arts from Curtin University and a Diploma from the Australian Institute of Directors ("**AICD**"). Greg is also a fellow of the AICD and the Financial Services Institute of Australasia.

4 RISK FACTORS

Risk factors may, individually or in combination, materially and adversely affect the future profitability, financial position, financial performance, cash flows, growth of Capricorn, the value of the Shares, the outcome of any investment in Capricorn and the benefits of being a Member of Capricorn.

Some of the risks may be mitigated by the use of safeguards and appropriate systems and actions put in place by Capricorn, including the strategy of operating and financing the businesses on an individual non-recourse basis.

This following list of risks is not exhaustive and is supplemental to those risks listed in the Prospectus, which include risks specific to the Shares and also risks specific to the operations of Capricorn. Directors consider that those risks listed in the Prospectus are higher risks which could be more likely to have a material adverse effect on Capricorn. Risks listed in this information memorandum are risks that are specific to the operations of Capricorn or a general in nature which Directors consider could also have an adverse effect on Capricorn.

4.1 Risks Specific to the Operations of Capricorn

(a) Competition

An increase in competition from existing competitors, new competitors or both may negatively affect Capricorn's performance. Competition in the automotive industry, from where Capricorn draws its Members, could lead to consolidation and down-sizing of independent automotive repairers which in turn could negatively affect Capricorn's performance.

(b) Personnel

An inability to recruit and retain key personnel may negatively affect Capricorn's performance.

(c) Investment Portfolio Fluctuations

Capricorn's assets include an investment portfolio which included as at 30 June 2011 (as per the Annual Report) shares of \$9,875,738 and investment properties of \$3,700,000.

Fluctuations in investment portfolios held by Capricorn due to prevailing market conditions can materially affect the financial performance of Capricorn.

(d) Industry Risks

Capricorn operates across a diverse range of industry sectors and, in particular, maintains a strong presence within the automotive and financial services industries. General risks in relation to these industries include the impact of changes in the supply chain, manufacturers and service/fund providers, regulation, competition, global demand for resources, climate change, political environment and changes in technology.

These industry risks may individually or in combination materially negatively affect Capricorn's performance.

(e) Financial Services Risks

There are a number of risks which arise directly or indirectly from the financial services provided by Capricorn in Australia and New Zealand either directly or through its related companies, including CSFS. These risks are described below:

- (i) **Risks to the market itself.** There is the risk of an adverse event in financial markets which directly or indirectly affects Capricorn and such risk usually arises from either funding risk or interest rate change. Funding risk is the risk of over-reliance on a particular funding source affecting the cost or availability of finance to Capricorn or Capricorn members affecting Capricorn earnings. Interest rate changes affect the cost of finance to Capricorn or Capricorn members affecting Capricorn earnings.
- (ii) **Risks of bad debts.** There is the risk in any direct lending by Capricorn that it may suffer losses by reason of a debtor failing to meet their contractual obligations or Capricorn failing to recover the full amount of from any secured property or both.
- (iii) **Cash flow risk.** The risk in operating a direct funding model of Capricorn being unable to meet its financial commitments as and when they fall due as a result of a mismatch between funding commitments and cash flow.

(f) Sovereign Risk

Capricorn does business on a national and an international level. There are certain risks inherent in doing business on a national and an international level, such as unexpected changes in regulatory requirements, exchange controls, taxation, tariffs, customs and other trade barriers, difficulties in staffing and managing foreign operations, political uncertainty, expropriation, nationalisation and war. There may also be fluctuations in currency exchange rates, technology export and import restrictions or prohibitions and delays from customers, brokers or government agencies. Any of these could impact the success of Capricorn's operations.

(g) Exit or Retreat

Capricorn operates across a diverse range of markets and any exit or retreat from a market may damage the Capricorn brand or incur liabilities or impose obligations on Capricorn on exit from such markets including but not limited to employee severance and redundancy payments and damages claims from Members and Suppliers in the applicable market which may negatively impact on Capricorn's performance.

(h) Joint Venture Risks

Capricorn is in joint control of RAP with RMML and of INAS with Anthem. Key matters in respect of these joint venture businesses require the agreement of Capricorn's joint venture partner.

Any material dispute or disagreement with a joint venture partner may negatively affect the performance of the relevant joint venture and the returns it provides to Capricorn. Any material dispute may have wider implications than just the joint venture company as Capricorn has business relationships with both joint venture partners outside of the joint ventures – RMML is owned by Regis which provides CMM with services to assist in the provision of

management services to Capricorn Mutual and Anthem is licenced to provide and maintain the CAPlink system to Capricorn.

4.2 General Risks

(a) Changes in Economic Conditions

Capricorn and the industries it operates in are affected by domestic and international business conditions, general movements in local and international stock and property markets, investor sentiment, inflation rates, interest rates, exchange rates, the ability to access debt and equity capital markets and government fiscal, monetary and regulatory policies. Rapid changes or prolonged deterioration to any of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions and growth prospects of Capricorn.

In addition, there has been a material economic slowdown globally brought about by the crisis in the credit and other capital markets the effects of which continue to be felt and the full negative impact of this on the markets in which Capricorn operates and its performance going forward cannot be determined.

(b) Force Majeure Events

An act of terrorism, natural disasters, social disorder or outbreak of hostilities within or outside of Australia may adversely affect consumer spending and confidence. Any such event may affect the financial performance of Capricorn.

(c) Financial Risks

Given the nature of commerce there remains an inherent risk that at some point in the future Capricorn may not be able to meet its ongoing operational and financial commitments.

(d) Regulatory Risks

Capricorn is required to comply with a range of laws and regulations specific to Australia, New Zealand and South Africa.

These different regulatory regimes include laws and regulations specific to:

- (i) the financial services, insurance and protection and travel industries;
- (ii) securities
- (iii) competition;
- (iv) occupational health; and
- (v) taxation laws.

Changes in government legislation, policies and taxation regimes, accounting practices, government intervention and changes in government in Australia, New Zealand or South Africa may affect the compliance costs and financial performance of Capricorn or continued operation of the Capricorn business model.

Further, a failure to comply with laws and regulations could expose Capricorn to litigation or regulatory action which could have materially adverse effects on Capricorn's future financial performance.

(e) Taxation Risks

Any change to the current rate of company income tax in any of the jurisdictions where Capricorn businesses operate may impact on financial performance and cash flows and ability to pay dividends, which could impact returns to Members.

Any changes to the current rates of income tax applying to individuals and trusts may similarly impact on Members' returns.

Tax liabilities are the responsibility of each individual Member. Capricorn is not responsible for taxation or penalties incurred by Members. Members should seek independent advice from their professional taxation advisors to ascertain the tax implications of their membership with Capricorn.