



Choppies Enterprises Limited

(Registration number 2004/1681)

BSEL share code: CHOPPIES

JSE share code: CHP

ISIN: BW0000001072

("Choppies" or the "Company" and, together with its subsidiaries, the "Group")

**This Update\* contains statements in respect of financial estimates.**

**While these estimates represent the Company's current judgement on the 2018 Financial Results\*, these are subject to risks and uncertainties, including conclusion of the Audit Completion Matters\*, which could cause actual results to differ materially from current estimates.**

**The Company cautions that such financial estimates are not guarantees in respect of the 2018 Financial Results\*.**

*\*As defined in the Update below.*

#### **FURTHER UPDATE TO SHAREHOLDERS (the / this "Update")**

Shareholders are referred to the various announcements regarding the delay in the publication of the Group's audited annual financial statements for the year ended 30 June 2018 (the "2018 Financial Results") and the related cautionary announcements, the last of which was published on 15 February 2019.

As announced on 1 November 2018, the trading of the Company's shares on both the Botswana Stock Exchange Limited ("BSEL") and Johannesburg Stock Exchange Limited ("JSE") remains suspended pending the Company's publication of its 2018 Financial Results.

The board of directors of Choppies (the "Board" or the "Directors") wishes to advise shareholders that the Company is still progressing the matters referred to in the announcements regarding the delay in the publication of the 2018 Financial Results. The Board is now in a position to provide shareholders with additional information, which is set out below.

# CHOPPIES

*Great value for your money!*

## A. DELAY IN PUBLICATION OF THE 2018 FINANCIAL RESULTS

1. The Company's external auditors, PricewaterhouseCoopers ("**PwC**") raised certain concerns with the Board, in respect of the audit for the year ended 30 June 2018, which resulted in the 2018 Financial Results not being completed within the timelines originally anticipated (the "**Audit Completion Matters**").
2. The Audit Completion Matters may broadly be said to relate to three subject areas, being:
  - 2.1. audit concerns and queries relevant to the Group's compliance with International Financial Reporting Standards ("**IFRS**") (the "**Audit Queries**");
  - 2.2. certain matters which, in terms of the Company's announcement dated 27 September 2018, were referred for investigation, analysis and advice, and which involved a number of commercial agreements to which the Group was party in Botswana during past years. These include transactions with entities related to the Group where such relationships may not have been fully disclosed or considered in preparation of annual financial statements for past financial years (the "**Legal Investigation**"); and
  - 2.3. an independent forensic investigation into certain transactions to which the Group was party (the "**Forensic Investigation**").

## B. PROGRESS MADE

3. The Board advises that:
  - 3.1. in relation to the Audit Queries, the issues underpinning PwC's enquiries have been substantially addressed by the Group, with PwC's audit of these matters currently ongoing. The Group expects detailed audit work in the various end-markets to conclude during March 2019, allowing the Audit Queries to be closed by the end of April 2019;

# CHOPPIES

*Great value for your money!*

- 3.2. in relation to the Legal Investigation, a Botswana law firm was appointed to undertake and provide the necessary legal analysis and advice. The primary work of the law firm has concluded and its report on the relevant matters has been tabled before the Board (the “**Legal Report**”). The Board is considering the recommendations and remedial actions proposed in the Legal Report. Subject to the implementation of the recommendations in the Legal Report, and the addressing by the law firm of any ancillary issues that may arise by way of a supplemental report, if necessary, the Legal Investigation is expected to close by the end of April 2019. Based on initial analysis of the Legal Report, the Group expects to make additional disclosures (including disclosures relating to prior periods) in the Group’s 2018 Financial Results. Currently, the Board does not expect any impact on the 2018 Financial Results or financial position of the Group for financial years prior to 30 June 2018 as a result of the Legal Investigation; and
- 3.3. in relation to the Forensic Investigation, an international law firm and an international audit firm (the “**Forensic Team**”) have been appointed, and the Forensic Investigation has commenced. Given the nature of forensic investigations, it is not possible, as at the date of this Update, for the Board to ascertain the date of completion of the Forensic Investigation. The Board has appointed a committee of non-executive directors for the purpose of liaising with the Forensic Team and considering the outcome of the Forensic Investigation. The Audit Completion Matters remain open until this process has completed.
4. As all the Audit Completion Matters may impact the 2018 Financial Results, in accordance with relevant International Standards on Auditing, PwC will not be in a position to issue an audit opinion on a provisional basis (that is, after the Audit Queries and Legal Investigation are concluded, but the Forensic Investigation remains outstanding).
5. Consequently, the Board is not able at this stage to determine when the Company will be in a position to publish the 2018 Financial Results.
6. The Board shall however provide further updates to shareholders as and when the Audit Queries and Legal Investigation are completed and when information is availed by the Forensic

# CHOPPIES

*Great value for your money!*

Team as to when the Forensic Investigation is expected to complete. This will lead to an assessment by the Board as to a date by which the 2018 Financial Results are envisaged to be published, which will then be communicated to shareholders.

7. Shareholders are advised that, as the 2018 Financial Results have not been published, this has had a timing impact on the publication of the half-year results of the Group to 31 December 2018. The Board is engaging with the BSEL to determine if both sets of financial results can be published simultaneously, at a date to be determined based on conclusion of all the Audit Completion Matters.
8. In the interim, the Company is able to provide the unaudited financial information set out in section E. below.

## C. **BOARD COMPOSITION**

9. Following recent changes to the composition of the Board, as announced, the Board has initiated processes to appoint additional independent non-executive directors. The recent appointment of Mr Wilfred Mpai as an independent non-executive director and Chairman of the Audit and Risk Committee was part of these processes.
10. Once completed, the appointments will serve to strengthen the composition of the Board and allow the Board to fully constitute the necessary sub-committees in compliance with appropriate governance standards.

## D. **ENGAGEMENT WITH REGULATORY AUTHORITIES**

11. The Board advises shareholders that the Company has, since the delay in the publication of the 2018 Financial Results became apparent, consulted and engaged with the BSEL, as its primary regulator for guidance and will continue to do so.
12. The Company assures shareholders that, to the extent necessary, it will interact and engage with any other applicable regulatory authority in relation to the publication of the 2018

# CHOPPIES

*Great value for your money!*

Financial Results. Shareholders will be advised of any other matter or issue which may be required to be brought to their attention from such engagements.

## E. UNAUDITED FINANCIAL INFORMATION TO 30 JUNE 2018

13. In preparing the 2018 Financial Results, and in response to matters highlighted through the Audit Queries, the Group has assessed:

- the manner in which accounting policies had been applied in prior periods in order to ensure that these not only complied with the relevant policy but also with underlying IFRS requirements; and
- whether any information, which the Group either became aware of during the financial year ended 30 June 2018 or subsequently up to the date of this Update, indicates that any financial information prepared and presented in prior periods require restatement or re-presentation.

14. In certain instances, relating (but not limited) to:

- the complete identification of and accounting for business acquisitions;
- accounting for depreciation and amortisation on tangible and intangible assets with finite lives;
- assessing the need to derecognise and impair goodwill and tangible assets, and the quantum of such derecognition and impairment;
- measurement of inventory as it relates to reductions in invoiced cost through rebates and similar supplier discounts and valuation of inventory acquired in foreign currencies; and
- assessing the carrying value of deferred tax assets,

# CHOPPIES

*Great value for your money!*

the Group has determined that certain amounts and balances reported in prior periods required restatement or re-presentation.

15. Based on the Group's unaudited assessment, the cumulative impact of such restatements will be to reduce total equity of the Group as at 30 June 2017 (as previously reported) by an estimated P378,000,000.
16. The Group estimates that P338,000,000 of such total restatement results from the derecognition or impairment of goodwill and other tangible and intangible assets, revised depreciation and amortisation of tangible and intangible assets and derecognition of deferred tax assets previously recognised.
17. The Group currently estimates, on an unaudited basis, that the consolidated net income after tax for the year ended 30 June 2018 will be lower than that originally reported for the year ended 30 June 2017 by P389,000,000.
18. The unaudited estimated financial results after tax for the year ended 30 June 2018 have been impacted negatively by, amongst others:
  - charges for impairment of goodwill and tangible assets estimated at P166,000,000;
  - charges for impairment of trade and other receivables estimated at P93,000,000;
  - inventory losses, exceeding the estimated value of such losses for the 2018 financial year based on the average loss experience over the preceding two financial years by an estimated P127,000,000, as confirmed through improved stock count procedures during the 2018 financial year; and
  - derecognition of deferred tax assets previously recognised to the estimated value of P14,000,000.
19. Given the subjective nature of many of these matters, the Group is currently providing PwC with the information necessary for it to independently assess, through appropriate audit procedures,

# CHOPPIES

*Great value for your money!*

whether the Group has accounted for these matters correctly. Only once such audit procedures are completed, will the Audit Queries have been concluded.

20. The estimated financial impact enumerated above does not include the consequence, if any, which a supplemental report on the Legal Investigation or the Forensic Investigation may have on the 2018 Financial Results. The Group will only be able to ascertain such potential impact once these particular Audit Completion Matters have been completed.

## F. OPERATIONS AFTER 30 JUNE 2018

21. During the period subsequent to 30 June 2018, the Group faced challenging trading conditions in a number of regions. Notwithstanding these conditions, the Group continues to meet its financial obligations as they arise.
22. As previously announced, during January 2019, the Group acquired all of the issued share capital that it had not previously owned in Nanavac Investments (Proprietary) Limited (“**Nanavac**”). Nanavac is thus now a wholly-owned subsidiary of the Group operating in Zimbabwe.
23. The Group’s failure to finalise the 2018 Financial Results within stipulated timelines and consequent suspension of trading in its shares listed on the BSEL and JSE resulted in a breach of contractual covenants with a number of lenders. In accordance with established contractual agreements governing such situations, the Group has liaised with its lenders in order to provide them with information and disclosures to which the lenders are entitled.
24. In this manner, some of the Group’s Directors and members of the executive have met and continue to meet regularly with lenders in order to ensure that the Group has continued access to existing lending facilities (which remain adequate for operational purposes).
25. For reasons similar to those highlighted in paragraph 23 above the Group executive continues to liaise closely with suppliers and credit insurers in order to procure that the Group meets its financial obligations as agreed with these important stakeholders.



The Company's primary listing is on the BSEL and its secondary listing is on the JSEL.

By Order of the Board

5 March 2019

BSEL Sponsoring Broker

AFRICAN ALLIANCE BOTSWANA LIMITED

JSE Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)