

CHOPPIES

Great value for your money!

CHOPPIES ENTERPRISES LIMITED

ABRIDGED AUDITED GROUP FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | (Audited) Year ended 30 June, 2019 P'000 | (Audited) Year ended 30 June, 2018 P'000 |
|---|---|---|
| Revenue | 9,620,187 | 10,791,295 |
| Cost of sales | (7,724,374) | (8,728,879) |
| Gross profit | 1,895,813 | 2,062,416 |
| Other operating income | 81,262 | 55,163 |
| Operating income | 1,977,074 | 2,117,579 |
| Expenditure | (2,300,004) | (2,433,800) |
| Net impairment losses | (52,999) | (334,669) |
| Administrative expenses | (1,805,824) | (1,730,252) |
| Selling and distribution expenses | (122,846) | (76,655) |
| Net monetary loss on translating Zimbabwean entities | (354) | - |
| Other operating expenses | (317,981) | (292,224) |
| Operating (Loss) profit before interest | (322,929) | (316,221) |
| Finance costs | (80,110) | (78,702) |
| Finance income | 1,187 | 3,543 |
| (Loss) Profit before taxation | (401,852) | (391,380) |
| Taxation | (26,840) | (53,129) |
| (Loss) Profit for the period | (428,692) | (444,509) |
| Attributable to: | | |
| Owners of the company | (393,662) | (418,075) |
| Non-controlling interests | (35,030) | (26,434) |
| Other comprehensive (loss) income | | |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translating foreign operations | (299,111) | (1,114) |
| Exchange differences on translating foreign operations in hyperinflationary economy | 71,392 | - |
| Attributable to: | | |
| Owners of the company | (229,456) | (1,938) |
| Non-controlling interests | 1,737 | 824 |
| Total comprehensive (loss) income | (656,411) | (445,623) |
| Attributable to: | | |
| Owners of the company | (623,118) | (420,013) |
| Non-controlling interest | (33,293) | (25,610) |
| Basic (loss) earnings per share - Thebe | (30.20) | (32.07) |
| Diluted (loss) earnings per share - Thebe | (30.20) | (32.07) |
| Headline (loss) earnings per share - Thebe | (25.87) | (6.84) |
| Diluted headline (loss) earnings per share - Thebe | (25.87) | (6.84) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | (Audited) 30 June, 2019 P'000 | (Audited) 30 June, 2018 P'000 |
|--|-------------------------------------|-------------------------------------|
| Assets | | |
| Non-current assets | 1,169,452 | 1,567,798 |
| Property plant and equipment | 1,056,020 | 1,275,628 |
| Intangible assets and goodwill | 86,414 | 178,983 |
| Deferred taxation | - | 5,795 |
| Investments in new projects | 27,018 | 107,392 |
| Current assets | 1,017,670 | 1,444,922 |
| Inventories | 574,069 | 956,504 |
| Amounts due from related entities | 14,956 | 22,425 |
| Other financial assets | 3 | 2,190 |
| Advances and deposits | 82,502 | 80,830 |
| Taxation refundable | 16,676 | 17,646 |
| Trade and other receivables | 96,449 | 202,576 |
| Restricted cash | 26,300 | 41,375 |
| Cash and cash equivalents | 206,715 | 121,376 |
| Total assets | 2,187,122 | 3,012,720 |
| Equity and Liabilities | | |
| Equity | (80,147) | 576,264 |
| Stated capital | 906,196 | 906,196 |
| Retained (loss) earnings | (676,179) | (280,257) |
| Treasury shares | (29,616) | (29,616) |
| Hyper inflationary reserve | 71,392 | - |
| Foreign currency translation reserve | (294,849) | 5,999 |
| Non controlling interests | (57,091) | (26,058) |
| Non-current liabilities | 778,079 | 823,939 |
| Long term borrowings | 626,707 | 708,755 |
| Deferred taxation | 32,262 | 41,910 |
| Straightlining lease obligation | 119,110 | 73,274 |
| Current liabilities | 1,489,190 | 1,612,517 |
| Current portion of straightlining lease obligation | 16,303 | 32,355 |
| Bank overdraft | 248,155 | 106,448 |
| Trade and other payables | 1,055,225 | 1,312,289 |
| Amounts due to related entities | 118,002 | 42,675 |
| Taxation payable | 5,388 | 12,020 |
| Current portion of long term borrowings | 46,117 | 106,730 |
| Total liabilities | 2,267,269 | 2,436,456 |
| Total equity and liabilities | 2,187,122 | 3,012,720 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Particulars | Stated Capital P'000 | Retained Earnings (loss) P'000 | Treasury Shares P'000 | Hyper Inflationary reserve P'000 | Foreign Currency Translation Reserve P'000 | Attributable to equity holders P'000 | Non Controlling Interest P'000 | Total P'000 |
|--|-------------------------|-----------------------------------|--------------------------|-------------------------------------|---|---|-----------------------------------|----------------|
| Balance as at 1 July, 2017 (Audited) | 906,196 | 168,778 | (30,720) | - | 7,936 | 1,052,190 | (17,825) | 1,034,365 |
| Total comprehensive (loss) income for the period | - | (418,075) | - | - | (1,937) | (420,012) | (25,610) | (445,622) |
| Loss for the year | - | (418,075) | - | - | - | (418,075) | (26,434) | (444,509) |
| Other comprehensive (loss) income | - | - | - | - | (1,937) | (1,937) | 824 | (1,113) |
| Total distributions to owners of company recognised directly in equity | - | (30,960) | 1,104 | - | - | (29,856) | 17,377 | (12,479) |
| Issue of ordinary shares to share incentive trust | - | (831) | 1,104 | - | - | 273 | 17,377 | 17,650 |
| Dividends paid | - | (30,129) | - | - | - | (30,129) | - | (30,129) |
| Balance as at 30 June, 2018 (Audited) | 906,196 | (280,257) | (29,616) | - | 5,999 | 602,322 | (26,058) | 576,264 |
| Total comprehensive (loss) income for the period | - | (393,662) | - | 71,392 | (300,848) | (623,118) | (33,293) | (656,411) |
| Loss for the year | - | (393,662) | - | - | - | (393,662) | (35,030) | (428,692) |
| Other comprehensive (loss) income | - | - | - | 71,392 | (300,848) | (229,456) | 1,737 | (227,719) |
| Total distributions to owners of company recognised directly in equity | - | (2,260) | - | - | - | (2,260) | 2,260 | - |
| Other Equity adjustment | - | (2,260) | - | - | - | (2,260) | 2,260 | - |
| Dividends paid | - | - | - | - | - | - | - | - |
| Balance as at 30 June, 2019 (Audited) | 906,196 | (676,179) | (29,616) | 71,392 | (294,849) | (23,056) | (57,091) | (80,147) |

CONSOLIDATED STATEMENT OF CASH FLOWS

| Particulars | (Audited) Year ended 30 June, 2019 P'000 | (Audited) Year ended 30 June, 2018 P'000 |
|--|---|---|
| Net cash flows generated from operating activities | 282,401 | 419,927 |
| Net cash flows used in investment activities | (120,539) | (620,625) |
| Net cash flows generated from financing activities | (222,771) | 81,849 |
| Net movement in cash and cash equivalents | (60,909) | (118,849) |
| Cash and cash equivalents at beginning of the period | 14,928 | 103,483 |
| Effect of translation of foreign entities | 4,541 | 30,294 |
| Cash and cash equivalents at end of the period | (41,440) | 14,928 |

HEADLINE EARNINGS PER SHARE COMPUTATION

| | |
|-------------------------------------|---------------|
| Basic Earnings | (393,662) |
| Remeasurements | |
| Loss on disposal of asset | 855 |
| Impairment losses | 66,509 |
| Tax Impact | (10,998) |
| Headline Earnings | (337,296) |
| Number of shares for basic earnings | 1,303,628,341 |
| Weighted Average Number of Shares | 1,303,628,341 |
| Basic HEPS | (25.87) |
| Diluted HEPS | (25.87) |

SEGMENTAL RESULTS

| Particulars | Botswana P'000 | Zambia P'000 | Zimbabwe P'000 | Namibia P'000 | Total for Continued operations | South Africa P'000 | Kenya P'000 | Tanzania P'000 | Mozambique P'000 | Total for Operations discontinued after 30 June 2019 | Total Group |
|---|-------------------|-----------------|-------------------|------------------|--------------------------------------|-----------------------|----------------|-------------------|---------------------|--|----------------|
| Year ended 30th June 2019 (Audited) | | | | | | | | | | | |
| Statement of profit or loss and other comprehensive Income | | | | | | | | | | | |
| Revenue : | | | | | | | | | | | |
| Trading income | 4,147,283 | 583,516 | 508,493 | 119,701 | 5,358,994 | 3,740,550 | 440,437 | 55,374 | 24,831 | 4,261,193 | 9,620,187 |
| Other income | 55,006 | 807 | 713 | 118 | 56,645 | 20,117 | 3,186 | 386 | 927 | 24,616 | 81,262 |
| Total segmental revenue | 4,202,289 | 584,324 | 509,206 | 119,819 | 5,415,638 | 3,760,668 | 443,623 | 55,760 | 25,758 | 4,285,809 | 9,701,447 |
| Segment gross profit | 1,000,542 | 100,083 | 95,843 | 19,813 | 1,216,281 | 602,066 | 65,957 | 7,213 | 4,296 | 679,532 | 1,895,813 |
| Segment Impairments Loss | 16,017 | 3 | 3,904 | - | 19,924 | 9,965 | 17,567 | - | 5,543 | 33,074 | 52,999 |
| Segment EBITDA | 258,343 | [38,031] | 15,149 | [9,232] | 226,227 | [196,610] | [58,219] | [12,536] | 1,436 | [265,930] | [39,702] |
| Segment Depreciation/Amortisation | 90,884 | 12,939 | 6,288 | 3,454 | 113,565 | 94,673 | 13,686 | 1,512 | 2,760 | 112,633 | 226,199 |
| Segment Finance Income | 254 | - | 3 | - | 257 | 930 | - | - | - | 930 | 1,187 |
| Segment Finance Expense | 61,030 | - | 1,852 | 176 | 63,058 | 6,259 | 6,830 | - | 3,961 | 17,051 | 80,110 |
| Segment profit/[loss] Before taxation | 90,666 | [50,974] | 2,753 | [12,863] | 29,582 | [306,577] | [95,269] | [14,049] | [15,539] | [431,434] | [401,852] |
| Segment Taxation | [21,886] | - | [712] | - | [22,598] | [44] | [26] | [4,170] | - | [4,241] | [26,840] |
| Segment profit/[loss] after taxation | 68,780 | [50,974] | 2,041 | [12,863] | 6,984 | [306,622] | [95,295] | [18,219] | [15,539] | [435,676] | [428,692] |
| Statement of financial position | | | | | | | | | | | |
| Segment assets | 906,982 | 167,469 | 173,599 | 55,755 | 1,303,806 | 693,427 | 152,812 | 13,380 | 23,694 | 883,315 | 2,187,121 |
| Segment liabilities | 1,327,897 | 87,166 | 49,016 | 16,072 | 1,480,151 | 581,619 | 170,704 | 10,360 | 24,432 | 787,118 | 2,267,269 |
| Year ended 30th June 2018 (Audited) | | | | | | | | | | | |
| Statement of profit or loss and other comprehensive Income | | | | | | | | | | | |
| Revenue : | | | | | | | | | | | |
| Trading income | 4,102,809 | 502,714 | 1,641,385 | 45,223 | 6,292,131 | 4,044,525 | 407,699 | 22,121 | 24,820 | 4,499,164 | 10,791,295 |
| Other income | 35,528 | 747 | 1,393 | 14 | 37,682 | 15,661 | 673 | 92 | 1,056 | 17,482 | 55,163 |
| Total segmental revenue | 4,138,336 | 503,460 | 1,642,778 | 45,237 | 6,329,811 | 4,058,829 | 408,371 | 22,213 | 25,876 | 4,515,290 | 10,845,100 |
| Segment gross profit | 939,051 | 66,059 | 267,946 | 5,270 | 1,278,327 | 715,662 | 61,678 | 2,697 | 4,053 | 784,089 | 2,062,416 |
| Segment Impairments Loss | 131,954 | 34,477 | 16,553 | - | 182,984 | 140,187 | - | - | - | 140,187 | 323,171 |
| Segment EBITDA | 125,959 | [20,333] | 52,697 | [7,570] | 150,753 | [18,415] | [27,801] | [7,067] | [3,273] | [56,557] | 94,196 |
| Segment Depreciation/Amortisation | 101,374 | 11,021 | 12,915 | 1,263 | 126,573 | 68,897 | 8,969 | 927 | 2,563 | 81,355 | 207,928 |
| Segment Finance Income | 226 | - | 9 | - | 235 | 2,451 | 857 | - | - | 3,308 | 3,543 |
| Segment Finance Expense | 28,357 | - | 4,135 | 158 | 32,650 | 40,146 | 10 | - | 5,897 | 46,053 | 78,702 |
| Segment profit/[loss] Before taxation | [6,237] | [31,354] | 19,103 | [8,991] | [27,478] | [273,775] | [70,400] | [7,994] | [11,732] | [363,901] | [391,380] |
| Segment Taxation | [29,406] | [6,335] | [6,148] | - | [41,889] | [40] | [13,255] | 2,055 | - | [11,241] | [53,129] |
| Segment profit/[loss] after taxation | [35,643] | [37,688] | 12,955 | [8,991] | [69,367] | [273,814] | [83,656] | [5,940] | [11,732] | [375,142] | [444,509] |
| Statement of financial position | | | | | | | | | | | |
| Segment assets | 1,039,723 | 209,971 | 548,678 | 48,164 | 1,846,536 | 947,306 | 161,890 | 18,100 | 38,887 | 1,166,183 | 3,012,720 |
| Segment liabilities | 1,303,020 | 96,079 | 233,737 | 17,072 | 1,649,908 | 654,034 | 97,898 | 6,097 | 28,519 | 786,548 | 2,436,456 |

COMMENTARY

1. Nature of business

Choppies Enterprises Limited ("the Company") is a Botswana-based investment holding company operating in the retail sector in Southern Africa. Dual-listed on the Botswana Stock Exchange (BSE) and Johannesburg Stock Exchange (JSE), its operations are food and general merchandise retailing as well as financial service transactions supported by centralised distribution channels, through distribution and logistical support centres.

2. Basis of preparation and accounting policies

The abridged consolidated financial results and financial position of the Company are extracted from the Group Annual Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies applied during the year are consistent with those applied in the previous year with the exception of the introduction of IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers) and IAS 29 (Hyperinflation) in respect of the Group's Zimbabwean subsidiary.

Any investment or similar decisions by stakeholders should be based on the consideration of the complete group Annual Financial Statements, which is available for inspection at the Company's registered office.

3. Director's Responsibility for the Abridged Financial Statements

The directors are responsible for the preparation of the abridged consolidated financial results and financial position of the Company in accordance with BSE and JSE listings requirements and of the Companies Act of Botswana.

4. Reason for delay in publication of results

Upon the appointment of PricewaterhouseCoopers ("PwC") as external auditors for the 2018 financial year, the Board and the new auditors initiated an exercise to re-assess several past accounting practices and policies, which took more time than expected and had a material impact on the 2018 and prior period financial statements.

Furthermore, the Board initiated a legal and a forensic investigation on some of the matters raised by the auditors which reports were only concluded and released during September 2019.

The above actions resulted in the 2018 Audited Annual Financial Statements only being released during December 2019.

During September 2019, PwC resigned as auditors of the Company/Group for the 2019 financial year. Following a protracted process to replace PwC as auditors, Mazars eventually agreed to be appointed external auditors for the Company/Group on 17 February 2020.

The knock-on effects of the above events, coupled with the outbreak of COVID 19 and the lockdowns in the countries in which the Group operates, result in the delay of the finalisation of the audited 2019 financial results.

5. Going concern

For the first time in its history, the Group recorded a negative equity of P80.1 Million (2018: positive equity P576.2 Million). The decline in equity of P656.3 Million was mainly caused by:

Unrealised foreign currency translation reserves of P300.8 Million. The effect of the deterioration of the Zimbabwe currency alone accounts for P323.2 Million of this amount with the balance of P22.4 Million made up of a net profit on translating other currencies. These unrealised losses from Zimbabwe were partly offset by the recognition of a hyperinflation reserve of P71.3 Million.

Trading losses of P435.6 Million (2018: P375.1 Million) from regions that were closed/discontinued since the June 2019 year-end namely, South Africa P306.6 Million (2018: P273.8 Million), Kenya P95.3 Million (2018: P83.7 Million), Tanzania P18.2 Million (2018: P5.9 Million) and Mozambique P15.5 Million (2018: P11.7 Million).

The negative Group equity gave rise to extensive investigations into the ability of the Company and Group being able to operate as going concern for the next year and medium term thereafter. The Board considered the 2021 budgets, detailed cash flow forecasts - stress tested, banking facilities and covenants, undertakings of financial support by the founder shareholders, the economic outlook of the countries in which it operates as well as the possible future impact of the COVID 19 pandemic.

The Board concluded that the Company and Group will be a going concern for the foreseeable future.

6. Group results

"Ongoing operations" means those operations or countries that will continue to trade in future and that were not closed or discontinued after the June 2019 year-end. These are made up of Botswana, Zambia, Zimbabwe, and Namibia.

Group Revenue decreased by 10.85% from P10 791 Million to P9 620 Million due to a P1.1 Billion decline in turnover from the Zimbabwe segment on the back of a volatile macro-economic situation that led to a 84% currency weakness against the Pula. Gross profit decreased from P2 062 Million to P1 895 Million whilst the gross profit margin remains flat at around 19.71%. Gross profit margin for ongoing operations however increased from 20.3% to 22.6% owing to a 1.2% improvement in the Botswana segment.

EBITDA decreased from P94.2 Million profit to a loss of P39.7 Million in 2019 as EBITDA losses, especially in South Africa, escalated from P18.4 Million to P196.6 Million mainly due to the dismal trading conditions in the North West segment. The Group incurred another loss of P428.6 Million for the period under review (2018: loss of P444.5 Million) as the loss in South Africa alone escalated from P273.8 Million to P306.6 Million.

The unrealised foreign currency translation reserve from Zimbabwe referred to in note 5 above, resulted in the total comprehensive loss for the year increasing to P656.4 Million (2018: loss of P445.6 Million).

Non-current assets reduced from P1 567 Million to P1 169 Million as the Group disposed of its second aircraft (book value P81.4 Million), and P178 Million in foreign currency translations (mainly from Zimbabwe).

Working capital reduced with inventory levels decreasing from 40 to 27 days due to a concerted effort to reduce slow moving stock of P171 Million in South Africa. Trade payables decreased from 49 days to 44 days.

Net borrowings decreased from P800.5 Million to P714.3 Million as the Group continues to prioritize the reduction of debt.

7. Operational overview

This review will only focus on the ongoing operations.

Botswana

The Botswana business continued to show strong resilience in an increasingly competitive market. This year was a period of consolidation, rationalizing and balance sheet management with only 3 new stores opened. Revenue grew by 1% to P4 147.3 Million (2018: P4 102.8 Million) whilst gross profit margin improved to an impressive 24.1%

(2018: 22.9%). EBITDA grew by P132.3 to P258.3 Million (2018: P126.0 Million) with the reduction in impairment losses of P115 Million. As a result, EBITDA margin increased to 6.22% from 3.07% in 2018.

Zimbabwe

The Zimbabwean business continued to operate with great degree of tenacity. Hyperinflation in three digits, concerns surrounding the economy, changes in the money market and public disturbances made operating in the market challenging. Two new stores were opened but four were closed due to riots. Revenue declined by P1.1 Billion to P508.5 Million (2018: P1 641.4 Million) resulting from a drastic weakening of the local currency against the Pula. The abrupt changes and volatility in the currency makes operating in Zimbabwe extremely difficult. Despite all these issues, a small net profit was realised. The business is self-sustaining without any cash flow constraints. However, repatriation of profits to Botswana will continue to be difficult until the economy undergoes a structural change.

Zambia

In Zambia, three new stores were opened during the year, including the first hyper store, as Choppies is becoming a significant player in the Zambian market. Sales grew by 16.1% to P583.5 million (2018: 502.7 million), and gross profit margins levels increased by 4.1% to relatively healthy levels of 17.2% (2018: 13.1%). The Zambian market was affected by a deterioration of 27% in the value of the Kwacha against the Pula due to a worsening local economy and the effects of the draught. With some overheads like rent fixed in US Dollar terms, operating expenses increased resulting in a deterioration of EBITDA losses from P20.3 million realised in 2018 to P50.9 million in 2019.

Namibia

The Namibian operation is still relatively small, with four stores and one liquor store, and is yet to reach a critical mass needed to generate sustainable profitability levels. Revenue for this segment was P119.7 million (2018: P45.2 million) with gross profit margins improving to 16.6% (2018: 11.7%). EBITDA losses increased to P9.2 million (2018: loss P7.6 million). The trends in sales growth and substantial improvement in gross profit levels are indicative of the future potential of the region. Based on the trends and similarities this market has to the Botswana market, the Namibian operation is expected to be a substantial contributor to the profitability of the Group in the longer term.

8. Events after reporting date (full details in note 43 to the Audited Annual Financial Statements).

In order to consolidate the business so as to focus on value adding subsidiaries, the Board has taken the decision to divest from South Africa, Kenya, Tanzania and Mozambique. A lot of progress has already been made with these divestments.

The Payless group of companies was placed in liquidation with the Company as the first secured creditor.

Since December 2019, the spread of COVID19 has severely impacted many local economies around the globe. The impact of the virus on the Group's businesses were limited due to its operations being classified as essential services and hence not closed during the lockdown periods. Assessments made of the impact on the Group's businesses during the three months, April, May, and June 2020, indicated a loss of revenue of approximately P190 Million. The duration and future impact of the COVID19 pandemic remains unclear at this time.

9. Audit Report

The Group's annual financial statements have been audited by Mazars who issued a modified opinion. Mazars' audit report is published on XNews simultaneously with this abridged release of results. This abridged financial information which has not been reviewed by the Group's external auditor, has been extracted from the audited annual financial statements.

10. Change in board members

From the reporting date to the date of publication of these abridged Annual Financial Statements there has been changes in the Board of Directors of the Company as detailed below:

Changes in Board

Dorcas Ana Kgosietse [Resigned 4 September 2019]
Heinrich Mathiam Stander [Appointed 15 December 2018 and Resigned 4 September 2019]
His Excellency Festus Gontebanye Mogaie [Resigned 4 September 2019]
Ronald Tamale [Appointed 13 December 2017 and Resigned 4 September 2019]
Wiifred Victor Mpaai [Appointed 22 November 2018 and Resigned 4 September 2019]
Sydney Alan Muller [Resigned 22 October 2018]
Sanooj Pullarote [Resigned 15 December 2018]
Robert Neil Matthews [Resigned 19 February 2019]

Current Board

Farouk Essop Ismail
Ramachandran Ottapathu
Carol Jean Harward [Appointed 4 September 2019]
Tom Pritchard [Appointed 4 September 2019]
D. K. Uttum Corea [Appointed 9 September 2019]

11. Dividend

The Board has considered it not prudent to declare a dividend for the period under review.

The Company's primary listing is on BSEL and its secondary listing is on JSE. The listings in both exchanges are currently suspended.

For and on behalf of the Board



Farouk Essop Ismail (Director)



R. Ottapathu (Chief Executive Officer)

REGISTERED OFFICE
Plot 50371,
Fairgrounds office park,
Gaborone,
Botswana.

COMPANY SECRETARY
DPS Consulting Services (PTY) Ltd.
Plot 50371, Fairgrounds office park,
Gaborone, Botswana.
[Appointed on 29 November 2019]
Corporate Services (Proprietary) Limited
[Resigned 29 November 2019]

AUDITORS (Appointed 17 February 2020)
Mazars
Plot 139,
Finance Park,
Gaborone,
Botswana.