

CHOPPIES

Great value for your money!

CHOPPIES ENTERPRISES LIMITED

Co. Reg: 2004/1681

Incorporated in the Republic of Botswana under Company Number 2004/1681

("the Company" or "the group")

BSE Share Code: CHOPPIES

JSE Share Code: CHP

ISIN Number: BW0000001072

ANNOUNCEMENT IN RESPECT OF THE DISPOSAL OF INTERESTS IN SOUTH AFRICAN SUBSIDIARIES AND WITHDRAWAL OF CAUTIONARY

1. INTRODUCTION

Shareholders are referred to the Cautionary Announcement published on XNews and SENS on 18 November 2019 ("the Cautionary") and the Announcement published on XNews and SENS on 26 November 2019 ("the Announcement").

Shareholders are advised that on 22 November 2019, the Company and its wholly owned subsidiaries, Choppies Supermarkets SA Proprietary Limited, Choppies Warehousing SA Proprietary Limited, Choppies Logistics Proprietary Limited and Motopi Holdings S A Proprietary Limited, (collectively the SA Subsidiaries) entered into agreements with Kind Investments Proprietary Limited (the Purchaser) in terms of which the Purchaser will purchase all the issued shares held by the Company and the loan accounts advanced by the Company to each of the Subsidiaries (the Disposal).

2. DESCRIPTION OF THE PURCHASER

The Purchaser is a company incorporated in the Republic of South Africa, incorporated particularly for the Disposal.

3. RATIONALE FOR THE DISPOSAL

The SA Subsidiaries have been trading at a substantial loss for the last two years.

Lack of cash flow resulted in trade creditor suppliers not being paid on their applicable due date and hence refusing to supply stock, causing stores in South Africa to become understocked and lose market share, exacerbating the losses.

The Company was not able to continue to fund the losses of the SA Subsidiaries from Botswana. Continuing failure to service debt owing to trade creditors exposed the Company to guarantees issued to suppliers and lessors for monies due by the SA Subsidiaries, and threats of application for the winding up of the SA Subsidiaries.

Such a scenario would have had negative consequences for the liquidity of the Company, and the relationship of the Botswana business entities with critical suppliers.

4. PURCHASE CONSIDERATION

The purchase consideration is ZAR1 for all the issued shares held by the Company in, and all claims of the Company on loan accounts against, each SA Subsidiary ("the Sale Equity").

In addition, the Purchaser undertakes to release the Company from all the guarantees issued by it to trade and lessor creditors and indemnifies the Company in relation to any claims under the aforesaid guarantees (until they are released as aforesaid). As security therefor, the sole director of the Purchaser has guaranteed the obligations of the Purchaser under such indemnity in favour of the Company.

The claims of Choppies Warehousing SA Proprietary Limited and Choppies Logistics SA Proprietary Limited against Nanavac Private Limited, the Company's subsidiary in Zimbabwe, of approximately ZAR43,000,000, and the claims of those companies against Choppies Supermarkets Zambia Limited, the Company's subsidiary in Zambia, of approximately ZAR17,000,000, will be ceded to the Company to collect for its own account.

The Purchaser is obliged to make an immediate, interest-free loan to Choppies Supermarkets SA Proprietary Limited in an amount of ZAR100,000,000 to be utilised to fund immediate working capital requirements and purchase stock. The SA Companies are obliged to use their best endeavours to pay suppliers that are owed by any SA Company with a view to re-establishing credit lines. In this way, the SA Companies will be able to increase stock levels in its stores and take advantage of the seasonal increase in trading in December 2019 and January 2020.

5. CONDITIONS PRECEDENT

The Disposal is subject to inter alia the following outstanding conditions precedent: -

- 5.1 The approval of the Disposal from the Lenders to the Company, (Absa Bank Limited, Barclays Bank of Botswana Limited, First National Bank Botswana Limited, Standard Chartered Bank Botswana Limited, Stanbic Bank Botswana Limited, The Standard Bank of South Africa Limited) and consent by the Lenders to the release of any security that they may have in relation to the Sale Equity and the assets of the SA Companies;
- 5.2 The approval of the Competition Authority of South Africa;
- 5.3 compliance by the Company with the requirements of the BSEL and/or the JSE.

6. FULFILMENT DATE AND EFFECTIVE DATE OF THE DISPOSAL

The Fulfilment Date is the date when the Conditions Precedent have been fulfilled, which date, the parties to the Sale of Share Agreement have agreed, should be 28 February 2020.

Delivery, ownership of and all risk in and all benefit accruing to the Sale Equity will take place on the first business day of the month immediately following the month in which the Fulfilment Date occurs (Effective Date).

7. OBLIGATIONS OF THE COMPANY

In terms of a written license agreement, the Company will on the Effective Date grant to the SA Subsidiaries, a non-transferable licence to continue to use the Choppies name and brand in South Africa for three years from the Effective Date.

In terms of a written agreement, the Company is to underwrite any negative equity value in the SA Subsidiaries which is yielded by applying a formula agreed upon by the Parties, subject to a maximum of ZAR150,000,000, which amount is payable in 15 equal monthly instalments, provided that each instalment is not less than ZAR10,000,000, commencing in the month following the Effective Date.

The Company provided certain Warranties and Indemnities to the Purchaser which are usual in disposals and acquisitions of this nature, in the Sale of Shares and Claims Agreement. In particular, indemnities were given in respect of known risks identified by the Purchaser, being a potential exchange control contravention and reportable irregularities identified by the auditors of the SA Companies, all of which have been disclosed to the relevant authorities without any sanction being imposed at the current time. The Company's liability under the Sale of Shares and Claims Agreement is limited as follows: (1) A claim or claims under the Warranties or Indemnities will expire on 30 September 2021; (2) all such claims under the Sale of Shares and Claims Agreement cannot exceed ZAR125,000,000 (Maximum Cap); (3) any claim or claims not exceeding, in aggregate, ZAR50,000,000 is/are payable upon the successful resolution of the claim or claims; (4) any claim or claims of amounts exceeding ZAR50,000,000 in aggregate is/are payable in ten equal monthly instalments commencing after the successful resolution of such claim or claims (subject to the aforesaid Maximum Cap).

8. FINANCIAL INFORMATION

Based on the unaudited management accounts of the SA Subsidiaries as at 30 June 2019: -

- 8.1. The Company intends to sell the shares it owns in its subsidiaries for ZAR 1. The carrying value of the investments in the SA Subsidiaries is NIL according to the management accounts as at 30 June 2019;
- 8.2. There were no net profits attributable to the sale of investment in SA Subsidiaries due to ongoing losses in the subsidiaries;
- 8.3. The net asset value of the SA Subsidiaries was negative (liabilities exceeded stock in trade and fixed assets). The sale value of the shares is ZAR 1. As a result, no pro forma effect on the net assets of the Company, per share of the Company and on the headline earnings per share of the Company has been calculated and presented;
- 8.4. The transaction does not entail the Company to appoint any new directors on its board or enter into any service contracts with the directors; and
- 8.5. The transaction does not involve any exchange of shares or other securities.

9. BOARD'S VIEW

- 9.1. The Board, acting on advice of Redford Capital its advisors in respect of the Disposal, and considering the current trading performance of the Group in Botswana, is satisfied that the Company can meet its obligations in terms of the Disposal and related agreements.
- 9.2. The Board is satisfied that after impairment of the investment and loans to the SA Subsidiaries, the Company remains technically solvent, i.e. its assets exceed its liabilities.

10. CLASSIFICATION OF THE DISPOSAL

The BSEL has determined that the Disposal is a Category 2 Transaction in terms of the BSEL Listing Requirements.

11. WITHDRAWAL OF CAUTIONARY AND STATUS OF ANNOUNCEMENT

By virtue of the fact that particulars of the Disposal have now been announced, the Cautionary is hereby withdrawn and the undertaking in the Announcement complied with.

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

By order of the Board

3 December 2019

BSEL Sponsoring Broker
African Alliance Botswana Limited



JSE Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)