IMPORTANT NOTE TO USERS:

The audit opinion reproduced here as a standalone document has been extracted from the Choppies Enterprises Limited Consolidated and Separate Annual Financial Statements for the year ended 30 June 2018 (the "AFS"). The AFS include the consolidated and separate financial statements to which this audit opinion refers. Accordingly, this audit opinion should be read together with the AFS, which are available from the Choppies Enterprises Limited's registered office.

Independent Auditor's Report

To the Shareholders of Choppies Enterprises Limited

Our disclaimer opinion

We do not express an opinion on the consolidated and separate financial statements of Choppies Enterprises Limited (the "Company") and its subsidiaries (together the "Group"). Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

We were engaged to audit the consolidated and separate financial statements of Choppies Enterprises Limited set out on pages 13 to 96 which comprise:

- the consolidated and separate statements of financial position as at 30 June 2018;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- the significant accounting policies; and
- the notes to the consolidated and separate financial statements.

Basis for disclaimer of opinion

Introduction – legal and forensic investigations

The Company has made various public announcements on a number of matters which were identified during August and September 2018, and which had delayed preparation of these consolidated and separate financial statements.

Having considered the nature and extent of the matters identified, the Company's Board appointed two legal firms and an expert forensic auditor to independently investigate the facts and circumstances relating to:

- the nature and extent of the relationship between the Group's Botswana businesses and Payless Supermarkets (Pty) Ltd;
- the nature and extent of the relationship between the Group's Botswana businesses and a group of companies operating in Botswana under the trade name "Fours Cash & Carry";
- the validity of sales transactions made in bulk by the Group's South African and Zimbabwean businesses during March and April 2018;
- money laundering allegations involving the Group's Zimbabwean business;
- the validity of agreements for and payments made with respect to business acquisitions made by the Group's South African businesses during October 2016, May 2017, July 2017 and October 2017; and

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- the identification of and reporting about related party transactions by the Group.

The results of these investigations, including responses by members of the executive management potentially implicated in the investigation reports, were made available through public announcements during August 2019.

As part of our audit, the Company allowed us access to the legal and forensic investigation teams and their reports, as well as the detailed responses of management and professional advisors potentially implicated.

There are a number of instances where no definitive conclusions could be drawn from these reports and the responses thereto. These are expanded on in further detail below.

Accounting for bulk sales transactions and business acquisitions in South Africa
During March and April 2018 the Company's South African subsidiary, Choppies Supermarkets South Africa (Pty) Ltd ("CSSA"), entered into a series of bulk credit sales transactions. These transactions - which related to inventory items which the Group has explained were either obsolete or surplus to trading requirements - contributed BWP88.9 million and BWP83.5 million to the consolidated Revenue and Cost of Sales, respectively.

CSSA received BWP100.7 million (including Value Added Taxation of BWP11.7 million) in cash in settlement of the bulk sales. Within a short time period of such receipts, payments amounting to BWP86.7 million were made by CSSA to a related party of the customer in the bulk sales transactions, pursuant to liabilities for business acquisitions made during the 2017 and 2018 financial years.

Until we had identified these as business acquisitions in accordance with IFRS, CSSA accounted for these purchase transactions as asset acquisitions on a cash basis, thus not recognising liabilities arising therefrom. Upon identifying these as business acquisitions, goodwill and tangible assets amounting to BWP88.2 million and BWP25.8 million, respectively, were recognised and the prior period results were restated to reflect this. At the end of the year, cumulative impairment charges amounting to BWP88.2 million have been recognised against goodwill arising from these business acquisitions.

In April 2018, the Company's subsidiary, Choppies Warehousing Services (Pty) Ltd ("CWS"), entered into a series of sales transactions. These transactions - which related to inventory items the Group has explained were short dated - contributed BWP18.7 million and BWP17.9 million to the consolidated Revenue and Cost of Sales respectively. These sales were made to the same customer as in the bulk sales transactions. To date no payment has been received in settlement of these sales transactions, and the related receivable has been fully impaired.

As a result of the inconsistency of explanations received with respect to the nature of inventory included in the bulk sales transactions and with respect to the commercial substance of the bulk sales transactions themselves, contradictory evidence relating to the actual dates of contracting for the business acquisitions and the agreed purchase considerations, the delayed recognition of liabilities for the business acquisitions and the subsequent impairment of assets arising from these, we were unable to obtain sufficient and appropriate audit evidence over the occurrence and accuracy of these bulk sales transactions, and the valuation and accuracy of the business acquisition transactions and resultant impairment charges.

Accounting for bulk sales transactions in Zimbabwe

During March and April 2018, the Company's Zimbabwe subsidiary, Nanavac Investments (Pvt) Ltd ("Nanavac"), entered into a series of bulk credit sales transactions. These transactions contributed BWP59.4 million and BWP59.4 million to the consolidated Revenue and Cost of Sales, respectively.

BWP15.1 million with respect to these sales was receipted into Nanavac's bank accounts. Management indicated that the balance was received in cash, and was held for use in the business, specifically to pay for capital projects at various store locations (i.e., included in tangible assets as capital work-in-progress).

Due to the unavailability of records for the cash receipt transactions, we were unable to obtain sufficient and appropriate audit evidence confirming cash collections of BWP44.3 million by individual branches with respect to these bulk sales. Accordingly, we were unable to conclude on the occurrence of cash payments for capital projects made from such cash receipts.

Accounting for Payless Supermarkets (Pty) Ltd

Payless Supermarkets (Pty) Ltd ("Payless") owns and operates a chain of supermarkets in Botswana. The Group has no equity interest in Payless, but – at 30 June 2018 – was owed BWP103 million on loan account by Payless. The Group held security through pledge of shares held by the majority shareholder in Payless and deed of hypothecation over the moveable assets of Payless. This loan was fully impaired at the balance sheet date.

The legal investigation indicated that the majority shareholder of Payless had allowed the Group to control Payless' operations.

As set out in Note 1.22, the Group, in preparing the consolidated financial statements concluded that it had no control over Payless as defined in IFRS 10 Consolidated Financial Statements ("IFRS 10"). Accordingly, the Group has not included the financial results, assets and liabilities of Payless in the consolidated financial statements.

Owing to contradictions between management's assessment of control in accordance with IFRS 10, the findings of the legal investigation and the results of our own audit procedures, we were unable to obtain sufficient appropriate audit evidence to support or refute the conclusion that the Group does not control Payless. If the control conclusion reflected in the financial statements is incorrect, this will have a material impact on the financial statements, which we were not able to quantify.

Completeness and accuracy of related party disclosures

The forensic investigation identified more than one hundred potential related parties, which had not been identified and reported on as such in prior financial periods. These were related to the Group through common shareholding or directors and had been identified by reference to publicly available information. In addition to the identification of these related parties, the forensic investigation specifically noted limitations on the availability and reliability of complete information about shareholdings and directorships in South Africa, Botswana and Zimbabwe.

In determining the impact of this on disclosures in the financial statements, the Group requested the revised confirmations of directors' interests in other entities. The Group also considered whether the parties identified through the forensic investigation were still economically active and - where this was determined to be the case - obtained confirmations of recorded transactions and balances from the counterparty to support amounts and balances included in the financial statements.

As set out in Note 33, the Group has identified that it had transacted with or had outstanding balances with forty five of those entities identified through the forensic investigation.

We obtained evidence over the additional disclosures through the revised declarations of interests and confirmations from the identified related parties. We also tested to ensure that those entities identified by the forensic investigation, which the Group identified as no longer economically active, had been deregistered with the relevant authority.

However, given the unreliability of the public information regarding shareholders and directorships, and considering the extent of previously undisclosed related parties and transactions, we have not been able to conclude on the completeness of the existing related party disclosures.

Audit evidence relating to opening balances and prior year restatements

The statutory financial statements of eighty three of the Group's Botswana subsidiaries and all of the Group's South African subsidiaries have not been issued for up to two years preceding the current financial year. Corresponding figures for these entities were audited by the predecessor auditor to enable Choppies Enterprises Limited to prepare consolidated financial statements for the year ended 30 June 2017.

We were required to obtain evidence over the opening balances presented in the financial information to comply with International Standards on Auditing. During the course of our audit for the year ended 30 June 2018, multiple misstatements relating to the prior period(s) were identified in these and other entities of the Group. The impact of correcting these are disclosed in Note 38 to the financial statements.

This required the Group to exercise significant judgement in determining the correct accounting periods in which to record and at which amounts to quantify the corrections. With respect to the restatements relating to:

- accounting for earlier business combinations (including allocation of goodwill to specific Cash Generating Units);
- depreciation on property, plant and equipment;
- impairment of non-financial assets; and
- derecognition of previously recognised deferred tax assets,

the absence of detailed records supporting the accounting decisions of prior periods required management to apply best endeavours in order to determine appropriate values and timings for the restatements without the inappropriate use of hindsight.

With respect to certain matters - including the full impairment of the loan receivable from Payless (refer Note 6), inventory losses identified through improved verification procedures (refer Note 38) and impairment of investments in and loans to subsidiaries (refer Note 6) - the Group recorded full adjustments in the current period (without restating prior periods) because it was not possible to properly determine whether these related to the current or prior periods.

The nature and significance of these restatements indicate an increased risk of undetected further misstatements in prior periods.

Under the circumstances, we were unable to obtain sufficient and appropriate evidence allowing us to conclude that all material prior period restatements were identified, or to determine whether all the recorded restatements were processed in the appropriate amount and period.

Inability to obtain sufficient appropriate audit evidence – South African components

In addition to the prior period errors noted above, we identified a number of material and pervasive misstatements in the financial information (prepared for consolidation purposes) of the Group's South African subsidiaries for the period ended 30 June 2018. While the identified misstatements have been adjusted in the consolidated financial statements, the nature and significance of these errors have increased the risk of further undetected misstatements. Having expended all reasonable avenues to obtain the required level of audit evidence, we were still unable to conclude, as the accounting systems and processes did not create an environment that supported our ability to obtain sufficient and appropriate audit evidence on the financial information.

Conclusion

We have considered the collective audit evidence obtained in light of the matters outlined above. The results of the legal and forensic investigations, detailed responses thereto from management and other evidence we obtained during the audit indicate interpretations and explanations of the same facts and circumstances, which conflict and differ from one another.

The potential interaction of the multiple uncertainties outlined above and their possible cumulative effect on the financial statements have resulted in us being unable to form an opinion on the consolidated and separate financial statements as a whole.

Our audit approach

Overview

Overall group materiality Overall group materiality: BWP27 million which represents 0.25% of consolidated revenue.
Group audit scope The Group consists of fifteen components. We performed full scope audits on eleven financially significant components (the Company, all the components in Botswana, South Africa, Zimbabwe and Zambia). We also scoped in one other component (the Kenyan component), on which we performed audit procedures on certain account balances and transactions. Analytical review procedures were performed on the remaining components, which we considered insignificant for audit purposes.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	*BWP27 million*
How we determined it	*0.25% of the consolidated revenue*
Rationale for the materiality benchmark applied	*We chose consolidated revenue as the benchmark because, in our view, revenue is the key measure against which the performance of the Group is likely to be evaluated by users. We determined revenue to be a more appropriate benchmark than profit before taxation, as the Group's profitability has been volatile, and is not reflective of the operations of the Group relative to revenue, as some of the components are in start-up or growth phases.* *We applied 0.25% to consolidated revenue to determine materiality, which is lower than the normal quantitative materiality threshold applied to revenue. This was determined to be appropriate with reference to the financial statements as a whole. We considered a range of appropriate materiality values based on the elements of the financial statements. Revenue is the most significant individual financial statement line item and is larger than profit, total assets and total liabilities. We also took cognisance of the Group's significant exposure to third party liabilities, with related debt covenant requirements. Accordingly, in order to determine a materiality that is reflective of the financial statements as a whole, a quantitative materiality threshold lower than the norm was determined to be appropriate.*

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of the Company and ninety five subsidiaries. Based on the nature of operations and domicile of each subsidiary we determined that the Group consisted of fifteen components for purposes of our group audit, namely:

- the Company,
- six components (each a separate subsidiary) in Botswana engaged in wholesale, logistics, support and retail trading activities,
- a single component in Botswana engaged in retail trading activities (consisting of seventy seven separate subsidiaries),
- a single component in South Africa engaged in wholesale, logistics, support and retail trading activities (consisting of four separate subsidiaries);
- five components engaged in retail trading activities in Zimbabwe, Zambia, Namibia, Tanzania and Mozambique (each consisting of a single subsidiary), and
- one component engaged in retail trading activities in Kenya (consisting of three separate subsidiaries).

We identified financially significant components as those with a significant contribution to the consolidated revenue and net assets of the Group. Based on this, all eight of the Botswana components (including the Company), the South African component, the Zimbabwean component and the Zambian component were determined to be financially significant to the Group, and therefore subject to full scope audits. We also assessed the sufficiency of work planned over material line items in the consolidated financial statements, and included the Kenyan component in the scope of our group audit to perform audit procedures on certain account balances and transactions, based on it's contribution to consolidated net assets. The remainder of the components were considered to be insignificant to the Group individually and in aggregate, and we performed analytical review procedures at a Group level on these components.

All audit work on the Botswana components and insignificant components was performed by the Group engagement team, whilst component auditors performed audit work on the other in-scope components. This, together with additional procedures performed at the Group level, including testing of consolidation journals, intercompany eliminations and review of audit work performed by component auditors, provided us the audit evidence we needed for our opinion on the consolidated financial statements as a whole.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated and separate financial statements

Our responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with International Standards on Auditing and to issue an auditor’s report. However, because of the matter described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Botswana.

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