CHOPPIES

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CHOPPIES ENTERPRISES LIMITED

ABRIDGED AUDITED GROUP FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	(Audited) Year ended 30 June, 2018 P'000	(Audited) Year ended 30 June, 2017 Restated P'000
Revenue	10,791,295	8,709,308
Cost of sales	(8,728,879)	(6,865,568)
Gross profit	2,062,416	1,843,740
Other operating income	55,163	37,891
Operating income	2,117,579	1,881,631
Expenditure	(2,433,800)	(1,917,784)
Net impairment losses	(334,669)	(167,265)
Administrative expenses	(1,730,252)	(1,431,117)
Selling and distribution expenses	(76,655)	(16,902)
Other operating expenses	(292,224)	(302,500)
Operating (Loss) profit before interest	(316,221)	(36,153)
Finance costs	(78,702)	(54,551)
Finance income	3,543	10,930
(Loss) Profit before taxation	(391,380)	(79,774)
Taxation	(53,129)	(90,032)
(Loss) Profit for the period	(444,509)	(169,806)
Attributable to:		
Owners of the company	(418,075)	(159,620)
Non-controlling interests	(26,434)	(10,186)
Other comprehensive (loss) income		
Exchange differences on translating foreign operations	(1,114)	12,357
Attributable to:		
Owners of the company	(1,938)	13,485
Non-controlling interests	824	(1,128)
(Loss)Profit and Total comprehensive (loss) income	(445,623)	(157,449)
Attributable to:		
Owners of the company	(420,013)	(146,135)
Non-controlling interest	(25,610)	(11,313)
Basic (loss) earnings per share - Thebe	(32.07)	(12.36)
Diluted (loss) earnings per share - Thebe	(32.07)	(12.36)
Headline (loss) earnings per share - Thebe	(6.84)	0.75
Diluted headline (loss) earnings per share - Thebe	(6.84)	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	(Audited) 30 June, 2018 P'000	(Audited) 30 June, 2017 Restated P'000	(Audited) 30 June, 2016 Restated P'000
Assets			
Non-current assets	1,567,798	1,462,674	1,513,545
Property plant and equipment	1,275,628	1,157,644	1,076,997
Intangible assets and goodwill	178,983	223,472	294,476
Deferred taxation	5,795	35,925	46,512
Investments in new projects	107,392	45,633	95,560
Current assets	1,444,922	1,578,031	1,100,174
Inventories	956,504	974,975	685,397
Amounts due from related entities	22,425	35,863	7,655
Other financial assets	2,190	3	3
Advances and deposits	80,830	93,611	83,212
Taxation refundable	17,646	2,045	-
Trade and other receivables	202,576	241,629	191,450
Restricted cash	41,375	15,445	15,266
Cash and cash equivalents	121,376	214,460	117,191
Total assets	**3,012,720**	**3,040,705**	**2,613,719**
Equity and Liabilities			
Equity	576,264	1,034,365	1,228,323
Stated capital	906,196	906,196	875,476
Preference shares	-	-	-
Retained (loss) earnings	(280,257)	168,778	364,907
Treasury shares	(29,616)	(30,720)	-
Foreign currency translation reserve	5,999	7,936	(5,549)
Non controlling interests	(26,058)	(17,825)	(6,511)
Non - current liabilities	823,939	666,588	458,140
Long term borrowings	708,755	558,220	402,965
Deferred taxation	41,910	33,380	-
Straightlining lease obligation	73,274	74,988	55,175
Current liabilities	1,612,517	1,339,752	927,256
Current portion of straightlining lease obligation	32,355	5,851	4,651
Bank overdraft	106,448	110,977	80,371
Trade and other payables	1,312,289	1,024,572	693,968
Amounts due to related entities	42,675	71,085	12,213
Taxation payable	12,020	13,176	20,027
Current portion of long term borrowings	106,730	114,091	116,026
Total liabilities	**2,436,456**	**2,006,340**	**1,385,396**
Total equity and liabilities	**3,012,720**	**3,040,705**	**2,613,719**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Particulars	Stated Capital P'000	Retained Earnings (loss) P'000	Treasury Shares 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 30 June, 2016 Restated (Audited)	875,476	364,907	-	(5,549)	1,234,834	(6,511)	1,228,323
Total comprehensive (loss) income for the period	-	(159,620)	-	13,485	(146,135)	(11,314)	(157,449)
Loss for the year	-	(159,620)	-	-	(159,620)	(10,186)	(169,806)
Other comprehensive (loss) income	-	-	-	13,485	13,485	(1,128)	12,357
Total distributions to owners of company recognized directly in equity	30,720	(36,509)	(30,720)	-	(36,509)	-	(36,509)
Issue of ordinary shares to share incentive trust	30,720	-	(30,720)	-	-	-	-
Dividends paid	-	(36,509)	-	-	(36,509)	-	(36,509)
Balance as at 30 June, 2017 Restated (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 recognized directly in equity	-	(30,960)	1,104	-	(29,856)	17,377	(12,479)
Share granted in terms of the share incentive scheme	-	-	1,104	-	1,104	-	1,104
Minority contribution to share capital	-	-	-	-	-	17,377	17,377
Other Equity adjustment	-	(831)	-	-	(831)	-	(831)
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

CONSOLIDATED STATEMENT OF CASH FLOWS

Particulars	(Audited) Year ended 30 June, 2018 P'000	(Audited) Year ended 30 June, 2017 Restated P'000
Net cash flows generated from operating activities	419,927	302,754
Net cash flows used in investment activities	(620,625)	(339,116)
Net cash flows generated from financing activities	81,849	98,769
Net movement in cash and cash equivalents	(118,849)	62,407
Cash and cash equivalents at beginning of the period	103,483	36,820
Effect of translation of foreign entities	30,294	4,256
Cash and cash equivalents at end of the period	14,928	103,483

HEADLINE EARNINGS PER SHARE COMPUTATION

Basic Earnings	(418,075)
Remeasurements	
Profit on disposal of asset	(3,044)
Tax Impact	(2,782)
Impairment losses	334,669
Headline Earnings	(89,232)
Number of shares for basic earnings	1,303,628,341
Weighted Average Number of Shares	1,303,628,341
Basic HEPS	(6.84)
Diluted HEPS	(6.84)

SEGMENTAL RESULTS

Particulars	Botswana P'000	South Africa P'000	Zimbabwe P'000	Other regions P'000	Total P'000
Year ended 30 June, 2018 (Audited)					
Statement of profit or loss and other comprehensive Income					
Revenue :					
Trading income	4,102,809	4,044,525	1,641,385	1,002,576	10,791,295
Other income	35,528	15,661	1,393	2,581	55,163
Total segmental revenue	4,138,336	4,058,829	1,642,778	1,005,157	10,845,100
Reportable segment gross profit	939,051	715,661	267,946	139,758	2,062,416
Reportable segment Impairment Loss	131,954	140,187	16,553	34,477	323,171
Reportable segment EBITDA	125,959	(18,415)	52,697	(66,045)	94,196
Reportable segment Depreciation	101,374	68,897	12,915	24,742	207,928
Reportable segment Finance Income	226	2,451	9	857	3,543
Reportable segment Finance Expense	28,357	40,145	4,135	6,065	78,702
Reportable segment profit (loss) before taxation	(6,237)	(273,775)	19,103	(130,471)	(391,380)
Reportable segment Taxation	(29,406)	(39)	(6,148)	(17,536)	(53,129)
Reportable segment profit (loss) after taxation	(35,643)	(273,814)	12,955	(148,007)	(444,509)
Statement of financial position					
Reportable segment assets	1,039,723	947,306	548,678	477,013	3,012,720
Reportable segment liabilities	1,303,020	654,034	233,737	245,665	2,436,456
Year ended 30 June, 2017 Restated (Audited)					
Statement of profit or loss and other comprehensive Income					
Revenue :					
Trading income	4,044,028	2,720,997	1,366,116	578,167	8,709,308
Other income	26,446	8,219	1,592	1,634	37,891
Total segmental revenue	4,070,474	2,729,216	1,367,708	579,801	8,747,199
Reportable segment gross profit	954,454	565,614	241,635	82,037	1,843,740
Reportable segment Impairment Loss		167,265			167,265
Reportable segment EBITDA	308,450	53,433	22,365	(51,522)	332,726
Reportable segment Depreciation & Amortisation	102,713	62,731	20,668	15,501	201,613
Reportable segment Finance Income	6,777	3,240	11	901	10,930
Reportable segment Finance Expense	23,545	21,809	7,448	1,750	54,551
Reportable segment profit (loss) before taxation	188,969	(195,132)	(5,740)	(67,871)	(79,774)
Reportable segment Taxation	(47,445)	(57,214)	(1,547)	16,174	(90,032)
Reportable segment profit (loss) after taxation	141,524	(252,346)	(7,287)	(51,697)	(169,806)
Statement of financial position					
Reportable segment assets	1,233,532	933,026	508,902	365,245	3,040,705
Reportable segment liabilities	925,634	695,603	228,368	156,735	2,006,340

COMMENTARY

1. Basis of preparation and accounting policies

The abridged consolidated financial results and financial position of Choppies Enterprises Limited ("CEL"), 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.

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

2. Reason for delay in publication of results

Upon the appointment of new external auditors, PricewaterhouseCoopers ("PwC"), the Board and the new auditors initiated an exercise to re-assess a number of past accounting practices and policies. The reassessment exercise included historical purchase price allocations on business acquisitions, depreciation and amortization accounting, valuation of inventory and impairment assessment of property, plant and equipment, intangible assets and deferred tax assets. The reassessment of the accounting policies and practices took more time than expected and had a material impact on the current and prior period financial statements.

Furthermore, the Board initiated a legal and a forensic investigation on some of the matters raised by the auditors. PwC could not conclude on the finalization of the financial statements until these legal and forensic investigations were concluded, considering that the outcome could have an impact on accounting recognition, measurement and disclosures. These reports were only concluded and released during September 2019.

3. Prior period restatement

In preparing the Group and company Annual Financial Statements, management has critically 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 policies but also with relevant IFRS requirements.

Similarly, the Group has assessed whether any information, which it became aware of during the current financial year or the period thereafter during which the Annual Financial Statements were prepared indicate that the financial information prepared and presented in prior periods required reassessment.
In certain instances, these assessments required adjustments to amounts and balances reported in prior periods as – in the Group's judgement – the necessary information was available when those historical financial periods were finalised, and should reasonably have been obtained and taken into account in the preparation of those financial statements.

These instances and the impact thereof on amounts and balances previously reported, are summarised below:

Accounting of goodwill on acquisition of businesses on initial listing in 2011. It has now transpired that the accounting treatment of businesses acquired as part of the initial listing were incorrectly treated as control transactions which did not meet the IFRS definition of business combinations. As a result the goodwill of P307 million initially recorded was reversed.

Acquisition of the Jwayelani business through Choppies Supermarkets South Africa. This acquisition was accounted during 2016 on a provisional basis to be corrected in the subsequent accounting period. However, in 2017 this was not corrected, leading to a prior period restatement of property, plant and equipment, trademark and licenses. Such restatement resulted in a P78 million increase in the value of originally recorded goodwill, a P74 million decrease in the originally recorded value of property, plant and equipment and the initial recognition of trademark and licenses in the amount of P13 million.

Acquisition of the Zandspruit and Hebron businesses through Choppies Supermarkets South Africa. The initial acquisitions were concluded during the 2017 financial year. The Group did not account for these as business acquisitions and incorrectly treated these as separate acquisitions of property, plant and equipment. This restatement resulted in an P9 million increase in property, plant and equipment, P48 million increase in goodwill and P57 million increase in other liabilities.

Depreciation on property, plant and equipment. The Group's accounting policy on property, plant and equipment requires an annual reassessment of the useful lives and residual values of items. This reassessment was not conducted in the prior years resulting in the restatement of accumulated depreciation of P96 million decrease for 2016 and P10 million increase for 2017.

Impairment of Non-Financial Assets. The Group's accounting policy requires assessment of impairment of non-financial assets for individual assets or cash generating units. This policy was not consistently applied in prior years and upon assessment of impairments a restatement resulting in a decrease in goodwill of P128 million for 2017.

Cost of inventory – The Group had historically not accounted appropriately the impact of volume related rebates, promotional and marketing allowances, and various other fees received from suppliers in the valuation of inventory. Furthermore, when purchasing of inventory was done in foreign currencies, appropriate rate of exchange was not used. This historical accounting treatment is contrary to the Group's stated accounting policy for valuation of inventory. This has been corrected retrospectively and a decrease in value of inventory for P17 million for 2016 and P29 million for 2017 has been recorded.

Recognition of deferred tax assets on unutilized losses - Deferred tax assets recognized in the South African businesses have been derecognized on a retrospective basis, since evidence available at the time of completing historical financial statements did not support the recognition of deferred tax assets relating to those tax losses. This has resulted in a reduction of previously recognized deferred tax assets in the amount of P2 million and P65 million in 2016 and 2017 respectively.

Revenue and cost of sales - Due to an oversight in the manner through which the Group accounts for certain transactions between its South African operating companies, historical revenue and cost of sales have been understated by an equal (but opposite) amount. This error has no impact on historically reported gross profit or profit before tax but has been corrected through the increase of revenue and cost of sales as previously reported for the year ended 30 June 2017 by P143 million.

4. Group Results

The Group operates predominantly in commodity dependent markets, and despite difficult trading conditions revenue increased by 24% and gross profit increased by 12%. Group gross profit margin however reduced from 21.2% to 19.1% mainly due to the dismal trading conditions in the North West segment of South Africa. The gross profit percentage in South Africa reduced from 20.8% to 17.7% Administration expenses increased by 20.9% mainly due to more store acquisitions. Impairment losses increased from P167 million to P335 million due to various IFRS adjustments resulting in the Group reporting a loss for the year after taxation of P445 million (2017: loss P170 million). The impairment losses for 2018 included P77 million for reassessing useful lives of plant and equipment, P126 million goodwill written off on business acquisitions and P132 million impairment of trade and other receivables.
Net assets for 2017 reduced from P1514 million to P1034 million (a 32% reduction) mainly due to restatements of prior year results as more fully explained in note 6 below
The Group's gearing ratio increased from 35% to 57% due to increased levels of debt principally to fund store acquisitions in KZN South Africa, combined with the reduced equity following impairments and prior year adjustments.

5. Segmental Reporting

The Group operates in eight geographic areas, namely, Botswana, South Africa, Zimbabwe, Zambia, Kenya, Namibia, Tanzania and Mozambique.
BOTSWANA
The business continued to do well in this segment. Exchange rate did play a better role. The change in stock take methods had an impact on shrinkages. Financial services continued to perform well but there is still room for improvement. Import restrictions continued to affect the turnover negatively in the case of fruit and vegetables and other products.
SOUTH AFRICA
The turbulent socioeconomic conditions affected the performance of Northwest and caused temporary closure of over 30 stores and burning down of one store which increased the stock losses and fixed asset losses. Avian influenza in Europe affected the Kwa Zulu Natal business so badly that the business turned from showing a profitability position to huge losses. The company signed an agreement to sell its shares in Choppies Supermarkets SA (Pty) Ltd to another company in South Africa. This sale is subject to Competition Commission approval and will be completed by end of February 2020.
ZIMBABWE
Currency situation affected all the good performance with regards to revenue and profitability and it continued to deteriorate further. The issues with local partners were at the center of everything, though it is resolved now.
ZAMBIA
The Group has slowly increased the footprint towards breakeven in Zambia and currently it is almost at breakeven point. This is a very commendable performance considering the short span of time.
KENYA
The operations in Kenya has scaled down. We are anticipating selling these stores to various independent retailers in the country. This will be completed by the end of February 2020.
NAMIBIA
The performance of Namibian stores has been consistent. Some of the conceived projects could not be started in time.
TANZANIA
The operations in Tanzania discontinued and is waiting for a deal to be concluded with Carrefour. We are hoping for this transaction to be completed soon.
MOZAMBIQUE
We closed the only store which was operating in Mozambique on 30th September 2019.

6. Events after reporting date

The following events took place after the 2018 reporting date:

The Botswana and Johannesburg Stock Exchanges suspended the company shares for non-compliance with the listing requirements, mainly due to non-publication of the 2018 audited annual financial statements.

The Company acquired 100% of the shares in Nanavac Investments (Pty) Ltd – Zimbabwe operations. This effectively increased the Group's equity holding and profit-sharing arrangement from 49% and 93% respectively to 100% in both instances as from 9 January 2019.

On 1 July 2018, the Group amalgamated all its Botswana subsidiaries (83 in total) into Choppies Distribution Centre (Proprietary) Limited (CDC).

During November 2019 the Board has entered into an agreement whereby the Company and its wholly owned subsidiaries, Choppies Supermarkets SA Proprietary Limited, Choppies Warehousing S A Proprietary Limited, Choppies Logistics Proprietary Limited and Motopi Holdings S A Proprietary Limited, (collectively the SA Subsidiaries) entered into agreements with a Purchaser towards sale of all the issued shares held by the Company and the loan accounts advanced by the Company to each of the Subsidiaries. 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. 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. As security therefore, the sole director of the purchaser has guaranteed the obligations of the purchaser under such indemnity in favour of the company.

In order to consolidate the business so as to focus on value adding subsidiaries the Board has taken the following decisions:

- to sell its operations in Tanzania. The negotiations are in an advanced stage towards concluding this sale.
- to downscale its operations in Kenya and dispose of the stores to the local operators.
- to close its only store in Mozambique. Operations of the store in Mozambique have been stopped since September 2019.

Effective 1 January 2019, the Group has cancelled all guarantees provided to Fours Group. In addition, the buying group agreement with Payless has also been terminated and the Group has initiated legal proceedings against the shareholders of Payless towards repayment of loan advanced by the Group.

7. Audit Report

The Group annual financial statements have been audited by PwC, who have not expressed an opinion thereon as there were a number of matters which prevented them from obtaining sufficient and appropriate audit evidence as required by International Standards on Auditing. PwC's Audit report is published on XNews simultaneously with this abridged release of results. This abridged consolidated financial results and financial position, has not been reviewed by the Group's external auditors, have been extracted from the audited consolidated financial statements.

8. Change in board members

From the reporting date to the date of publication of these abridged annual financial statements there has been a change in the Board of Directors of CEL as detailed below:

Changes in Board

Brett Sean Stewart (Resigned 13 December 2017)
Sydney Alan Muller (Resigned 22 October 2018)
Sanooj Pullarote (Resigned 15 December 2018)
Robert Neil Matthews (Resigned 19 February 2019)
Dorcas Ana Kgosietsile (Resigned 4 September 2019)
Heinrich Mathiam Stander (Appointed 15 December 2018 and Resigned 4 September 2019)
His Excellency Festus Gontebenye Mogae (Resigned 4 September 2019)
Ronald Tamale (Appointed 13 December 2017 and Resigned 4 September 2019)
Wilfred Victor Mpai (Appointed 22 November 2018 and Resigned 4 September 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)

9. 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 suspended.

For and on behalf of the Board

D. K. U. Corea (Chairman)

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.

AUDITORS (resigned 25 September 2019)
PricewaterhouseCoopers
Plot 50371, Fairground Office Park,
Gaborone Botswana