# 2019 ANNUAL REPORT

## CHOPPIES ENTERPRISES LIMITED

Reg No. BW00001142508

CHOPPIES

Great value for your money!

# CONTENTS

# Directors Report

The Board of Directors ("directors") has pleasure in submitting their report on the financial statements of Choppies Enterprises Limited (the Company) for the year ended 30 June 2019.

**1. Listing Information**
Choppies Enterprises Limited is a company registered and domiciled in the Republic of Botswana and listed on the Botswana Stock Exchange ("BSE"). The Company has a secondary listing on the Johannesburg Stock Exchange ("JSE"). The Company registration number is BW00001142508.

**2. Nature of business**
The business of the Group is concentrated in the retail supermarket industry. The Group operates in Botswana, Zimbabwe, Zambia, and Namibia. After the June 2019 year-end the Board decided to discontinue or dispose of its operations in South Africa, Kenya, Tanzania, and Mozambique. The Company operates as an investment holding company.

**3. Review of financial results**
The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Botswana.

Full details of the financial position, results of operations and cash flows of the Group and Company are set out in these financial statements, page 21 to 110

**4. Share capital**

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| **Issued** | P | P | Number of shares | |
| **Ordinary shares** | 906 196 000 | 906 196 000 | 1 303 628 341 | 1 303 628 341 |

There have been no changes to the stated capital during the year under review.

**5. Dividends**
No dividends were declared during the period under review.

**6. Directorate**
Details of directors and movements during the year is given on page 112 of the Annual Report.

**7. Director's interests in shares**
As at 30 June 2019, the directors held direct and indirect beneficial interests in 34.88% (2018: 36.36%) of its issued ordinary shares. as set out below.

**8. Shareholders**
Details of shareholders are set out on page 111 of the Annual Report.

**9. Events after the reporting period**
The directors are not aware of any material events, except for those stated in Note 43 of the Annual Financial Statements, which occurred after the reporting date and up to the date of this report.

**10. Going concern**
The directors believe that the Company and Group will continue as going concerns for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis. More details about the going concern assessment has been provided in Note 42 of the Annual Financial Statements.

**11. Secretary**
DPS Consulting Services (PTY) LTD (Appointed on 29 November 2019)
P.O. Box 1453
Gaborone, Botswana
Corporate Services (PTY) Limited (Resigned on 29 November 2019)
P.O. Box 406
Kgale Mews
Gaborone, Botswana

**12. Independent Auditors**
Mazars (appointed on 17 February 2020)
Plot 139, Finance Park
Gaborone, Botswana

PricewaterhouseCoopers (resigned on 25 September 2019)
Plot 50371, Fairground office Park
Gaborone, Botswana

**13. Date of authorization for issue of financial statements**

The annual financial statements set out on pages 21 to 110, were approved by the Board on 24 July 2020.

# Report of the audit and risk committee

This report has been prepared by the Audit and Risk Committee ("ARC") of Choppies Enterprises Limited ("the Company") in respect of the 2019 financial year. It is not a legal requirement in Botswana to provide such a report but in the spirit of good governance and in terms of the King IV code, it has been considered appropriate to issue this report.

## 1. Reason for the delay in publication of results

Upon the appointed of new external auditors for the 2018 financial year, PricewaterhouseCoopers (PwC), the Board and the new auditors initiated an exercise to re-assess several 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 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. Considering that the outcome of the legal and forensic investigations could have an impact on accounting recognition, measurement and disclosures, PwC could not conclude on the finalization of the 2018 financial statements until these were concluded. These reports were only concluded and released during September 2019 and hence the delay in the publication of the 2018 audited annual financial statements.

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, resulted in the delay of the finalization of the audited 2019 financial results.

## 2. Change in membership

The chairperson of the ARC during the 2018 financial year, Mr. Robert N Matthews, resigned from the board on the 19th of February 2019. In addition, Mr. Sydney A Muller, another member, resigned on the 22nd of October 2018.

At an Extraordinary General Meeting of shareholders ("the EGM") held on the 4th of September 2019, the directors making up the then members of the ARC were not re-elected to the Board.

At a meeting of the Board on the 9th of September 2019, the newly elected independent non-executive directors, Mr. Tom Pritchard, and Ms. Carol-Jean Harward, were appointed as members of the ARC with the former voted as the chairperson of the ARC.

## 3. Charter

One of the first duties of the newly elected members of the ARC was to re-visit the charter of the committee. A new charter was drawn up incorporating the principles of the King IV code. This charter was approved by the Board.

## 4. Membership

The charter of the ARC makes provision for three (3) independent non-executive directors as members. Currently, with only two members, the ARC is not compliant with its own charter. With the expansion of the Board, a third member with the required experience and qualifications will be appointed to fill the vacancy. The chairman of the Board and other directors attend the meetings by invitation but do not have voting rights. Furthermore, the CEO, CFO and auditors attend meetings of the ARC by invitation. Other executives may be requested to attend some sections of meetings as required.

Attendance by members at meetings during the 2018 financial are set out in the Annual Report.

## 5. Integrated Reporting

One of the responsibilities of the ARC is to review the Company Integrated Report and to recommend the approval thereof to the Board. Following the late publication of the 2018, and consequently the 2019 financial results, the Board has decided to prioritize the preparation of the respective annual financial statements and accordingly to provide the minimum information as required by the Botswana Companies Act, the BSE and regulatory authorities. These minimum requirements have been incorporated in Annual Reports for the 2018 and 2019 financial years and were reviewed by the ARC. The Group will continue with providing an Integrated Report from the 2020 financial year.

## 6. Corporate governance

In terms of the ARC charter, underpinned by the requirements of King IV, the ARC must report on specific responsibilities assigned to it by the Board. The circular to the EGM, referred to as the Legal Report (as defined in the circular), points to lack of good corporate governance in the Company. The report continues to recommend that "…. there is an urgent need and requirement to overhaul the governance structure at Choppies to bring it up to international best practice standards." (This break-down in corporate governance was also reported by Counsels Hoffman SC and Meyerowitz in their report dated 5 December 2019). The Board, having accepted this important recommendation, assigned this responsibility to the ARC and to report back on its recommendations for approval by the Board.

The ARC identified the following gaps in the governance structure which had been extensively reported on in its 2018 report and summarized below: i) lack of levels of authority (approvals framework); ii) lack of a committee of the Board to act as an mechanism to evaluate and monitor business acquisitions and disposals; iii) the absence of a code of ethics and business practices; and iv) the re-assessment of the various Board committees including their charters as a point of departure. Consequently, the following recommendations from the ARC were approved by the Board and actioned by management during the latter part of 2019:

1. Approvals Framework

A fundamental part to any form of good governance is a clear definition of the levels of authority of the various decision makers in an organization. The absence of such a policy was at the center of breakdown in governance at the Company as pointed out in reports presented at the EGM.

2. Code of Business Conduct and Ethics

This "Code" is also a first for the Group. The Code was drawn up from best practices in the corporate world. It is intended to nurture a culture of integrity, responsibility, accountability, transparency, and fairness, and to sustain the confidence and trust of all the Company's stakeholders. Compliance with the Code is mandatory by all employees and stakeholders of the Company.

3. Governance structure

In reviewing the governance structure of the Choppies Group, the ARC acknowledged that the Board should retain full and effective control of the Group and that it is ultimately accountable and responsible for the performance of the Group. The board charter was changed to comply with the King IV requirements.

In addition, the ARC recommended the following board committees, each with its own charter or terms of reference which was approved by the Board:

- The Audit and Risk committee

  This was an existing board committee. The charter of this committee was fundamentally changed to comply with the requirements of King IV.

- Investment committee

  This was a new, long overdue committee of the Board and now operates under its own charter.

- Social and Ethics committee

  This committee was established under its own charter and with the purpose that the Group's South African subsidiaries conduct business in an ethical and properly governed manner in compliance with SA requirements. The Board has reconfirmed this committee as relevant to all its operations and not only those in South Africa and will continue with this committee.

- Human Resources/Remuneration and Nominations Committee

  The mandate of this committee is currently under review. This applies mainly to remuneration where the principles of King IV need to be considered and the impact on the Group determined. In the interim the remuneration committee will continue, human resources covered by the Social and Ethics committee and nominations of new directors by the Board.

4. Chief Executive Officer remuneration

The Board tasked the ARC to review the CEO's employment contract on the advices of Senior Counsels Hoffmann and Redding. Accordingly, in accordance with current best remuneration practises as advocated by King IV, the ARC recommended the current guaranteed portion of the CEO's remuneration be reduced by 43% to facilitate the introduction of short-term incentives. Upon the lifting of the suspension of the Company's share trading on the BSEL and JSE, the introduction of long-term incentives should be considered to align the remuneration structure of the CEO more towards the interest of shareholders. These recommendations were approved by the Board and implemented effective as of 1 March 2020.

The Company published a King III compliance checklist in previous Integrated Reports. The publication of a similar checklist for 2018 and 2019 was not considered appropriate by the ARC – the main reason being the collapse of corporate governance as detailed in the Legal Report as well as the subsequent Counsel Report referred to above. In addition, the members of the ARC were not around in 2018 and 2019 and thus, completion of such a checklist will have to be done on pure speculation. An appropriate report on compliance with the King code will be included in the 2020 Integrated Report.

**7. Significant matters in relation to the annual financial statements**

The 2019 Group and Company annual financial statements have been reviewed by the ARC and thought it appropriate to comment on the following matters:

Audit opinion.

The external auditors, Mazars, effectively issued a "split opinion" on the Group and Company annual financial statements for the 2019 financial year namely (1) an audit opinion disclaimer and (2) an audit qualification on not attending physical counting of the 2019 inventories. The ARC will deal with both these below.

The reasons for the audit opinion disclaimer by Mazars are based on the following, with the ARC's comments thereon:

- <u>Opening balances and comparative figures.</u>

  As Mazars were not auditors of the Company or Group in the prior year coupled with the fact that the predecessor auditor (PwC) expressed a disclaimer of opinion, they could not independently verify the correctness of the opening balances and comparative figures of the 2019 Group and Company annual financial statements. They continue by stating "The disclaimer of opinion was based on inability by the predecessor auditor to formulate an opinion on the consolidated and separate financial statements because of conflicting and different interpretations of the results of the legal and forensic investigations, management's responses thereto and other evidence obtained during the audit".

It is clear from the reasons for disclaiming an audit opinion by PwC on the 2018 results that the accounting for bulk sales transactions in South Africa and Zimbabwe as well as the accounting of certain business acquisitions in South Africa, formed a fundamental reason for their disclaimer. This disclaimer by PwC created a situation whereby subsequent audit opinions are forced to be disclaimed until the effect thereof on opening balances and comparative figures have been worked out of the reporting stream. Accordingly, the 2019 audit opinion was disclaimed by Mazars, as stated above, and so will, at least, the 2020 audit opinion as well.

The abovementioned bulk sales and business acquisitions matters were the subject of a "Focused Investigation "by Adv Meyerowitz as requested by the Board. (More details are set out in note 43.8 of the annual financial statements). Adv Meyerowitz issued a preliminary report on 21 July 2020 in which he, inter alia concluded:

- That the allegations of fraud in respect of stock in both South Africa and Zimbabwe would not likely succeed in a court of law nor in a formal quasi-judicial setting such as a disciplinary hearing;
- Counsel makes the point that even if the allegations were true, there is no evidence that any one party personally benefitted from the alleged fraud;
- The evidence provided suggests that the purchase prices in respect of the purchased stores were not artificially inflated

Investigations by the ARC during the past year also revealed no wrongdoings regarding the accounting treatment of the above-mentioned bulk sales or business acquisitions. It is indeed regrettable that these allegations costed the Group in excess of P17 million not accounting for management's time and deviation of focus.

- Accounting for Payless Supermarkets (Pty) Ltd

Mazars, as was the case with PwC in 2018, were unable to obtain sufficient appropriate audit evidence to conclude that the Group had not exercised control over Payless Supermarkets (Pty) Ltd during the prior years until 1st January 2019. Payless was since placed in provisional liquidation on 13 March 2020 and final liquidation on 3 June 2020.

The ARC commented on this issue in its 2018 report, quoted below, and has no reason to change its opinion:

"The ARC has seen the same source documents and information that could have possibly led to a view to consolidate this company in accordance with IFRS 10. The ARC is, however, comfortable to continue not to consolidate this company. The Group has no shareholding in Payless nor board representation, there is no management agreement in place, the loan to Payless is written off in full and the company is making losses for which the loss on impairment of the loan to Payless may be an indicative proxy. In addition, the ARC understands that the latest audited annual financial statements for this company is as far back as 2016. The ARC will certainly not recommend consolidation of unaudited accounts. Finally, the predecessor auditor issued opinions in 2016 and 2017 motivating the non-consolidation of this company under IFRS 10".

The audit report by Mazars contained a qualification in that they were appointed after June 2019 and therefore were unable to observe the counting of physical inventories, and were unable to satisfy themselves by alternative means concerning the existence and completeness of inventory quantities held at 30 June 2019.

Mazars continue: "As a result of this matter and since inventories enter into the determination of the financial performance and cash flows of the company, we were unable to determine whether any adjustments might have been necessary in respect of the profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows".

It is noted that PwC conducted physical counts of inventories during June 2019 which details were made available to Mazars. Mazars however, concluded that as this was the first year for them on the Group audit, they would have covered many more stores than what PwC did. As a result, these counts by PwC did not give Mazars the "alternative means" to verify the physical existence of the inventories at June 2019, hence the audit qualification.

Going concern.

The Group and Company annual financial statements have been prepared based on accounting policies applicable to a going concern. The Group recorded negative equity of P80.1 million as at 30 June 2019 (2018: positive equity of P576.2 million). This situation gave rise to intensive investigations, as set out in note 42 to the annual financial statements, of the Company and Group's ability to continue as going concerns during the next year and medium term thereafter. The Board's decision to close the loss-making operations in South Africa, Kenya, Tanzania and Mozambique and to concentrate on the operations with much more profit and cash generating capabilities, namely Botswana, Zambia, Zimbabwe and Namibia, should help stabilise the Group and increase shareholder's value.

The ARC led these investigations and are satisfied with the conclusion reached that the Board does not expect any material uncertainty over the Company or Group's ability to continue as going concerns in the foreseeable future.

Zimbabwe subsidiary

The ARC and the Board are conscious about the currency translation impact from Zimbabwe and its distorting effects on the financial statements. The projections in Zimbabwe indicate that the abrupt changes and volatility in the currency has a huge impact when translating the loan to the holding company, which is payable in US dollars. To rectify this, the Company will be engaging with the Reserve Bank of Zimbabwe in October 2020, the repayment date of the loan, towards the possibility of repatriating the USD loan given by the Company to the Zimbabwe operations. If the Company is successful in obtaining approval for repatriation of the loan, cash flow from Zimbabwe will then flow to the Group which will further improve the cashflows and largely eliminate the unrealized foreign currency losses and negative equity.

COVID 19

The impact of the COVID 19 pandemic has been assessed by the ARC and Board. The impact on the Group's businesses were limited due to its operations been 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.

## 8. Risk management

The ARC is an integral component of the risk management process and specifically, the ARC must oversee:

- Financial reporting risks;
- Internal financial controls;
- Fraud risks as it relates to financial reporting;
- IT risks as it relates to financial reporting; and
- Business risks.

The ARC shall furthermore review the risk areas of the Company's operations to be covered in the scope of the internal and external audits.

The Company maintains a register of all identified areas of risk that may impact the Group and suggested appropriate controls for mitigation. The ARC reported in its 2018 report that the register will be reviewed and updated during 2020 and that a workshop to that effect had been approved by the Board. This process was however interrupted by the COVID 19 outbreak and subsequent lockdowns in the countries in which the Group operates. An alternative plan has been made to update the register and mitigation controls internally, a process that has already commenced. The updated register and mitigation proposals will be completed and reported on in the 2020 Integrated Report.

## 9. Finance function and CFO

The Company changed CFO's three times in the past three years. With the resignation of the previous CFO during September 2019, an acting CFO was appointed whilst the search for a replacement commenced. The unfortunate situation had a ripple effect throughout a mostly leaderless finance department. Key regional finance heads resigned as well during 2018, further disrupting continuity.

Since the resignation of the previous CFO the finance department's narrow focus was to produce the outstanding statutory financial statements with a view to comply with legislation and stock exchange requirements for the Company's share suspension to be lifted.

The new CFO, with extensive hands-on experience with blue chip JSE listed companies, including retail, was appointed with effect from 1 May 2020 but has not yet relocated from South Africa to Botswana due to the closure of the borders following the COVID 19 outbreak.

There is an urgent need for the new CFO to critically assess and where necessary, make key appointments to bolster the finance department. A total overhaul of the accounting systems and procedures, including internal controls, also need to be done and documented. The lack of proper, accurate and timeous monthly management accounts is a priority action point. Knowledge of IFRS needs to be embedded into the company. The successful achievement of all these action points is critical for the Company to meet its future statutory financial statements reporting deadlines.

## 10. Internal audit

Currently, internal audit at Choppies, for all practical purposes, does not exist. There are only three staff members of the 2018 internal audit department left and are being used in trouble-shooting roles by management. The Head of the internal audit function has been vacant since September 2018.

An internal audit department must be built up from scratch. This is a major weakness in assisting the ARC, Board and shareholders with the necessarily comfort of checks and balances. There is simply no combined assurance model in the Group and relying on external audit to perform this function is insufficient. Ample work lies ahead in rebuilding the necessary assurance framework.

During the recent past an internal audit charter was approved by the Board. In terms of this charter, the internal audit department will functionally report to the ARC and logistically to management.

The Company has decided to outsource the internal audit function to a recognised audit firm with resources in the countries the Group operates in. It is anticipated that the establishment of the outsourced internal audit function will be rolled out in phases starting September 2020 and be fully implemented by mid-2021.

## 11. Compliance

The ARC commented in its 2018 report that it could not find assurances that the Company and Group complied with applicable laws and regulations and that there was no compliance model in place.

Management has during the past year commenced with compiling such a compliance model and has made good progress in rebuilding the trust that the Group complies with all relevant laws and regulations.

In the meantime, the ARC does take comfort of the increased awareness by management to comply and to demonstrate that fact which can be monitored in future. The ARC also take comfort in the appointment of a competent company lawyer with good knowledge of the law and regulations, especially as it applies to Botswana.

## 12. External audit fee

Independence

The ARC has no concerns regarding the external auditor's independence.

Fees non-audit services

The external auditors, Mazars, were not tasked with any non-audit services.

Fees – audit services

Fees for audit services that were approved by the ARC and Board for the respective years below, can be summarized as follows:

Financial year

| Botswana | | 2019 | 2018 |
|---|---|---|---|
| - | PwC (2019 – Attend June 2019 stock counts) | BWP 2 269 996 | BWP 8 681 163 |
| - | Mazars | BWP 8 055 300 | |
| South Africa | | | |
| - | PwC (2019 – Attend June 2019 stock counts) | R 3 232 008 | R 11 658 517 |
| - | Mazars | R 7 357 280 | |
| Zimbabwe | | $ 125 159 | $ 132 063 |
| Zambia | | ZMK 680 634 | ZMK 482 050 |
| Namibia | | NAD 322 924 | NAD 340 000 |
| Kenya | | KSH 2 150 000 | KSH 2 100 000 |
| Tanzania | | TZ 22 895 000 | TZ 23 184 000 |
| Mozambique | | MZN 658 550 | MZN 1 001 589 |

The bulk of the audit fees are expensed in Botswana and South Africa. The fees in these two regions for both years were impacted by audit work done around, amongst others, prior period accounting restatements, the Legal and Forensic Reports and additional audit activities necessitated by shortcomings in the Group's accounting systems and processes. The 2019 fee was also impacted by more work than usual done by the incoming auditor.

A major reduction in these high fees can be expected in future years as the Group work through the troubles of the past two years and dispose or close unprofitable operations.

The above fees require a confirmatory vote by shareholders.

## 13. External audit liaison

One of the key tasks of the ARC during the past year was to find a replacement for the untimely resignation of PwC as auditors. The ARC ran a process of inviting proposals from various international audit firms to fill the vacancy left by PwC. Mazars were recommended to the Board and were duly appointed external auditors of the Group. Since their appointment, the ARC, inter alia:

- Oversaw the hand-over process from PwC to Mazars;
- Confirmed that Mazars and the lead engagement partner were accredited by the BSE;
- Reviewed their proposed fees and recommended same to the Board for approval;
- Approved the audit plan and audit strategy memorandum;
- Agreed on the special audit focus areas;
- Had several meetings with Mazars on accounting and audit issues with and without management present;
- Identified all technical matters for discussion with Mazars technical team well before the year-end;
- Manage the process to meet deadlines for the publication of financial results and approval by the BSE;
- Met with Mazars to review the December 2018 Interim, June 2019 annual financial statements and December 2019 Interim statements;
- Concluded on the independence of Mazars.
- Reviewed the audit report to management on identified areas of internal control weaknesses
- Reviewed the audit conclusion report to the ARC

## 14. Conclusion

The past ten months has been an incredibly challenging period for the newly appointed audit committee members. The ARC members have acted independently and with due regard to their duties as directors and members of the ARC, which was taken very seriously. In this report we trust we allowed shareholders an insight into the Company in terms of our charter.

The ARC acknowledged in its 2018 report that the Company seriously lacks the governance and financial hygiene standards expected from a listed public company. We can report that much progress has been made in restoring good governance. Due to the narrow focus on producing three sets of financial results to comply with legislation and the BSE requirements coupled with the CFO that is locked down in South Africa due to COVID 19, a lot still needs to be done to improve the financial systems and reporting requirements.

Nevertheless the current finance team, under the leadership of the Acting CFO, deserves much credit for the completion, under difficult circumstances, of all the arrear financial statements and we all look forward to the lifting of the suspension on the BSE of the company's shares.

Tom Pritchard
Audit and risk committee chairperson
23 July 2020.

# Board and Committee Attendance Register

**BOARD MEETING**

| Name of the director | 17-Sep-18 | 25-Sep-18 | 13-Oct-18 | 23-Oct-18 | 01-Nov-18 | 13-Nov-18 | 21-Nov-18 | 05-Dec-18 | 11-Dec-18 | 19-Jan-19 | 13-Feb-19 | 26-Feb-19 | 19-Mar-19 | 02-Apr-19 | 09-May-19 | 20-May-19 | 04-Jun-19 | 10-Jun-19 | 19-Jun-19 | Summary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| His Excellency F G Mogae | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | ✓ | - | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | - | 15/19 |
| D Kgosietsile | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 19/19 |
| R N Matthews @ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | - | - | - | - | - | - | - | 11/19 |
| W Mpai # | - | - | - | - | - | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 12/19 |
| S A Muller @ | ✓ | ✓ | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2/19 |
| F Ismail | ✓ | ✓ | ✓ | ✓ | - | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 17/19 |
| R Ottapathu | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 19/19 |
| S Pullarote @ | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | - | - | - | - | - | - | - | - | - | 7/19 |
| R Tamale | ✓ | ✓ | ✓ | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 16/19 |
| H M Stander # | - | - | - | - | - | - | - | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 10/19 |

**AUDIT COMMITTEE MEETING**

| Name of the directo | 06-Jul-18 | 09-Feb-19 | 19-Mar-19 | 29-Mar-19 | 03-Jun-19 | Summary |
|---|---|---|---|---|---|---|
| D Kgosietsile | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| R N Matthews @ | ✓ | - | - | - | - | 1/5 |
| W Mpai # | - | ✓ | ✓ | ✓ | ✓ | 4/5 |
| S A Muller @ | ✓ | - | - | - | - | 1/5 |

**NED COMMITTEE MEETINGS ***

| Name of the directo | 17-Sep-18 | 25-Sep-18 | 24-Jan-19 | 15-Apr-19 | 17-Apr-19 | 13-May-19 | 21-May-19 | 23-May-19 | 24-May-19 | 27-May-19 | Summary |
|---|---|---|---|---|---|---|---|---|---|---|---|
| His Excellency F G M | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 9/10 |
| D Kgosietsile | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 10/10 |
| R N Matthews @ | ✓ | ✓ | ✓ | - | - | - | - | - | - | - | 3/10 |
| W Mpai # | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 8/10 |
| S A Muller @ | ✓ | ✓ | - | - | - | - | - | - | - | - | 2/10 |
| F Ismail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | 9/10 |
| R Tamale | ✓ | ✓ | - | ✓ | ✓ | ✓ | - | ✓ | - | - | 6/10 |

*These meetings were held offsite with no record of minutes kept nor was the Company Secretary present and members were paid sitting fees of P33 333 per meeting".

**Notes:-**

| | |
|---|---|
| W Mpai # | Joined -22nd November 2018 |
| H M Stander # | Joined -15th December 2018 |
| S A Muller @ | Resigned - 22nd October 2018 |
| S Pullarote @ | Resigned - 15th December 2018 |
| R N Matthews @ | Resigned - 19th February 2019 |

## Directors' Responsibilities and Approval

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Choppies Enterprises Limited, comprising the statements of financial position as at 30 June 2019 and the statements of profit or loss and other comprehensive income, statements of changes in equity and cash flows for the year ended 30 June 2019, the accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards ("IFRS").

The directors are also responsible for such internal controls they deem necessary to enable the preparation of financial statements that are free from material misstatement,whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management. In addition, the directors are responsible for the preparation and presentation of the other information accompanying the financial statements.

The directors have assessed the ability of the company and its subsidiaries to continue as going concerns (refer to note 42) and the impact of Covid-19 pandemic on its business and have no reason to believe these businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the International Financial Reporting Standards ("IFRS").

### Approval of the consolidated and separate financial statements

Having considered the disclaimed and qualified audit opinion of the auditors as set out on pages 11 to 20, for the year 30 June 2019, the Board of Directors approved the consolidated and separate financial statements of Choppies Enterprises Limited, as identified in the first paragraph, on 24 July 2020 and these are signed on their behalf by:

**Ramachandran Ottapathu - CEO**

**Farouk Essop Ismail - Director**

**Declaration by the Company Secretaries for the year ended 30 June 2019**

FWe declare that, to the best of our knowledge, the company has lodged with the Companies and Intellectual Property Authority all such returns as are required of a public company in terms of the Botswana Companies Act, and that all such returns are true, correct and up to date.

DPS Consulting Services (Proprietary) Limited
Company Secretaries
Date: 28 July 2020

DPS CONSULTING SERVICES
(PTY) LTD
P.O. BOX 1453
GABORONE
TEL: 3952011 FAX: 3973901

MAZARS

**Independent Auditor's Report**

**To the Shareholders of Choppies Enterprises Limited**

**Report on the Audit of the Consolidated and Separate Financial Statements.**

**Disclaimer of Opinion on the Consolidated and Separate Financial Performance and Consolidated and Separate Cash Flows and Qualified Opinion on the Consolidated and Separate Financial Position**

We have audited the consolidated and separate annual financial statements of Choppies Enterprises Limited and its subsidiaries ("Choppies Group") set out on pages 21 to 110 which comprise the consolidated and separate statement of financial position as at 30 June 2019, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated and separate financial performance and consolidated and separate cash flows of the Choppies Group for the year ended 30 June 2019. Because of the significance of the matters described in the Basis for Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated and separate financial performance and consolidated and separate cash flows.

In our opinion, except for the possible effects of the matters described in the Basis for Opinions section of our report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Choppies Group as at 30 June 2019 in accordance with International Financial Reporting Standards.

**Basis for Opinions, Including Basis for Disclaimer of Opinion on the Consolidated and Separate Financial Performance and Consolidated and Separate Cash Flows and Qualified Opinion on the Consolidated and Separate Financial Position**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion.

CERTIFIED AUDITORS

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*Opening balances and comparative figures.*

We were not appointed as auditors of Choppies Group in the prior year. The predecessor auditor expressed a disclaimer of opinion. The disclaimer of opinion was based on the inability by the predecessor auditor to formulate an opinion on the consolidated and separate financial statements because of conflicting and different interpretations of the results of the legal and forensic investigations, management's responses thereto and other evidence obtained during the audit.

*Consolidation of Payless Supermarkets (Pty) Ltd*

As stated in note 1.28, the Group did not consolidate the operations of Payless Supermarkets (Pty) Ltd in accordance with IFRS 10 as it was concluded that Choppies Enterprises Limited did not control the same. We were unable to obtain sufficient appropriate audit evidence to conclude that the Group had not exercised control over Payless Supermarkets (Pty) Ltd during the prior years until 1st January 2019, when any such relationship with Payless was terminated. We were also unable to assess and quantify the possible impact of this matter on the consolidated financial performance and consolidated cash flows, as well as the potential impact on the financial position as at 30 June 2018 which forms part of the comparative information.

*Qualification on Existence and Completeness of Inventory*

We were appointed as auditors of Choppies Group on 17 February 2020, subsequent to the year end and we were thus unable to observe the counting of physical inventories in certain locations, and we were unable to satisfy ourselves by alternative means concerning the existence and completeness of inventory quantities in certain locations held at 30 June 2019.

As a result of this matter and since inventories enter into the determination of the financial performance and cash flows of Choppies Group, we were unable to determine whether any adjustments might have been necessary in respect of the loss for the year reported in the consolidated statement of comprehensive income and the net cash flows from operating activities reported in the consolidated statement of cash flows.

Due to the matters noted above, we were unable to obtain sufficient and appropriate audit evidence that the closing balances for the prior year were free from material misstatement, and we are unable to express an opinion on the opening balances contained in these consolidated and separate financial statements for the year ended 30 June 2019. We were unable to satisfy ourselves by alternative means concerning the opening balances and comparative figures. Since opening balances enter into the determination of the consolidated and separate financial performance, consolidated and separate cash flows and consolidated and separate statement of changes in equity, we were unable to determine whether adjustments might have been necessary in respect of the movements in the consolidated and separate statement of profit or loss and other comprehensive income, the net cash flows from operating activities reported in the consolidated and separate statement of cash flows and the changes in equity reported in the consolidated and separate statement of changes in equity.

Furthermore, our opinion on the current year's consolidated and separate financial position is qualified because of the possible effects of the matter described above on the comparability of the current year's consolidated and separate financial position with that of the prior.

**Emphasis of Matter**

We draw your attention to the matter disclosed in note 43.8 - Events after reporting period, the preliminary focused investigation report into stock fraud allegations, issued on 21 July 2020.

This investigation relates to stock fraud allegations relating to the South African and Zimbabwe operations during March/April 2018 "Easter Trading Period".

At the date of the audit report, the preliminary report on the focused investigation has been released. The directors have agreed with the recommendation of the preliminary report to be open for comment by the persons implicated by the report for a period of three weeks, ending on 14 August 2020. Our opinion is not further modified in respect of these matters.

**Material Uncertainty Related to Going Concern**

Management prepared these consolidated and separate financial statements on the basis that the Group and the Company is a going concern. Management included their assessment, and the associated uncertainties they have identified, in basis of preparation (events after the reporting date and going concern). We draw attention to Note 42 on the financial statements, which indicates that the Group incurred a net loss of BWP 429 million (2018: BWP 445 million) during the year ended 30 June 2019, had accumulated losses of BWP 676 million (2018: BWP 280 million), and as at that date, Group's total liabilities exceeded its total assets by BWP 80 million (2018: total assets exceeding total liabilities BWP 576 million) and the total current liabilities exceed its total current assets by BWP 472 million (2018: BWP 168 million). As stated in Note 42, these events or conditions, along with other matters as set forth, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

**Other Matter**

The annual financial statements of Choppies Group for the year ended 30 June 2018 were audited by a predecessor auditor who expressed a disclaimer of opinion on those statements on 13 December 2019.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *MATTER #01* | ACCOUNTING FOR SUPPLIER REBATE INCOME |
|---|---|
| Description of Key Audit Matter | The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises other income or a reduction in cost of sales as a result of amounts receivable from suppliers.<br>We regarded the recognition of supplier rebates to be a matter of most significance to the audit as there is a risk that rebates may be materially misstated due to the significant magnitude thereof, the varying terms with the suppliers and also the judgements made in accruing for rebates as at year-end in relation to the nature and level of fulfilment of the Group's obligation under the supplier agreements. Such agreements typically allow for various adjustments to the original selling price of goods subsequent to delivery of the goods, including (but not limited to) trade rebates, volume discounts (often measured using purchases over an extended period of time), early settlement discounts, advertising and other allowances (collectively, "rebate income").<br>The disclosure associated with supplier rebates is set out in the financial statements on the following note:<br>• Note 1.28 – Rebates from suppliers |
| How we addressed the Key Audit Matter | We assessed the systems used to calculate rebates as well as the controls implemented by management over the accuracy of the calculation of rebates with the assistance of our information technology (IT) specialists.<br>We have tested the inputs used in calculating the supplier rebates by performing, among other, the following procedures for a sample of rebates:<br>• We reviewed the major supplier agreements to understand their terms;<br>• We assessed management's conclusion as to whether or not the rebate relates to a specific and genuine service, and consequently the treatment of the rebate in relation to the measurement of the cost of inventory at year end, through comparison to prior year treatment and evaluation of the types and terms of rebates received with reference to contractual terms;<br>• We recalculated and assessed the rebate amounts recognised and the period in which they were recognised. This was based on the review of contractual performance obligations on a sample of contracts with suppliers to assess the conditions required for supplier rebates to be recognised and whether or not these had been met;<br>• We assessed the recognition and classification of the rebates and other income and related costs in terms of the requirements of IAS 2, Inventories.<br>We have assessed and evaluated the presentation and disclosure of the above matter, as set out in the note 1.28 (Rebates from suppliers). |

| *MATTER #02* | GOODWILL |
|---|---|
| Description of Key Audit Matter | Goodwill comprises approximately 4% of the total assets of the Group. As required by International Financial Reporting Standards (IFRS), the directors conduct annual impairment tests to assess the recoverability of the carrying value of goodwill and indeterminate useful life of intangible assets. This is performed using discounted cash flow models.<br>The impairment test performed on goodwill is subjective, includes judgement & estimations made by management. Furthermore, the recent financial results, media articles and allegations of suspected fraud has negatively impacted market share and the operations of the business and increased the risk of goodwill impairment.<br><br>The valuation of goodwill and the impairment test performed in goodwill is considered to be a key audit matter due to the extent of judgment and estimation involved.<br><br>The disclosure associated with goodwill is set out in the financial statements on the following notes:<br>• Note 1.2 – Consolidation<br>• Note 14 – Goodwill and intangible assets |
| How we addressed the Key Audit Matter | We focused our assessment of the impairment test of goodwill on the key assumptions and judgements made by the directors.<br><br>We have tested the key inputs used by management in their calculations in the goodwill impairment test by performing the following procedures:<br><br>• Tested the mathematical accuracy of management's impairment models by recalculating the recoverable amount for significant CGUs and comparing this to the respective net carrying values;<br><br>• Evaluated the appropriateness of the valuation models applied by management;<br><br>• Assessing the reasonableness of management's future cash flow forecasts by comparing them to historical forecasts and current operational results, etc.;<br><br>• Assessing the reasonability of the growth rates by comparing these against actual performance achieved in prior years;<br><br>• We utilised our internal valuation experts to calculate an independent range of discount rates by taking into account independent data such as risk-free rates in the market, country risk premium, cost of debt, market risk premium, beta of comparable companies, capital structure of the industry comparable companies and other macroeconomic inputs.<br><br>• Comparing our independently calculated discount rates against the discount rates used by management;<br><br>• Where management relied on valuation experts to assess the fair value less cost to sell off assets, assessed the experience, skills, qualifications, independence of such valuation experts, and the methodology followed in their valuations.<br><br>We have assessed and evaluated the presentation and disclosure of the above matter, as set out in the note 1.2 (Consolidation) and note 14 (Goodwill and Intangible Assets). |

| *MATTER #03* | INVESTIGATION INTO STOCK FRAUD ALLEGATIONS |
|---|---|
| Description of Key Audit Matter | As disclosed in note 43.8 – Events after reporting period, there have been a number of allegations regarding stock fraud and related accounting irregularities.<br><br>The allegations relate to prior periods and culminated in the release of the opinions by Advocate Hoffman SC, Advocate Redding SC and Advocate Meyerowitz.<br><br>In taking into account the potential impact and the uncertainty over the outcome of the investigation while planning and performing our audit, we recognised an increased inherent and fraud risk over the financial statements.<br><br>We judged this to be a key audit matter due to the change in our audit approach required to adequately address the increased risk. |
| How we addressed the Key Audit Matter | In response to the assessed risk of material misstatement due to fraud, we adjusted our overall audit approach to take into account the elevated level of risk at the financial statement level, and we adjusted our audit approach for the specific financial statement items impacted by the allegations. We performed the following procedures, among others, to address the risk:<br><br>• Assigned personnel, including forensics and IT audit experts with the required knowledge and skill to address the risks of material misstatement due to fraud for the engagement;<br><br>• Determined materiality taking into account the risks mentioned above and adjusted our performance materiality accordingly;<br><br>• Evaluated whether the selection and application of accounting policies by the Choppies Group, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings;<br><br>• Incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures during the audit field work phase;<br><br>• Reviewed the forensic and legal investigation reports into past transactions and accounting practices, as well as the working papers of our predecessor auditor, with the purpose of identifying areas of particular risk that required audit procedures that were designed to address the specific fraud risk;<br><br>• Performed a detailed review of adjusting journal entries and investigating any that appear unusual as to the nature or amount;<br><br>• Investigated the completeness of related party transactions and the sources of financial resources supporting the transactions for significant and unusual transactions, particularly those occurring at or near year-end; and<br><br>• Consulted the experts on the forensic investigation, in order to challenge our audit approach to determine the adequacy of our procedures to address the risks associated with the stock fraud allegations.<br><br>• Reviewed the preliminary report on the focused investigation issued 21 July 2020 and interviewed advocate Meyerowitz on the scope of his investigation, his independence and the conclusions and recommendations presented in his report and considered the impact on our audit opinion. We draw attention to the Emphasis of Matter paragraph in this report. |

| *MATTER #04* | ACCURACY AND COMPLETENESS OF RELATED PARTY TRANSACATIONS |
|---|---|
| Description of Key Audit Matter | The Company has undertaken transactions with numerous related parties. These include sales of goods to related parties, as well as purchase of goods from related parties. We have identified accuracy and completeness of the related party transactions as a key audit matter due to the significance of related party transactions; the risk that transactions are entered into on a non-arm's length basis, and the risk that such transactions remain undisclosed.<br><br>The disclosure associated with related parties  is set out in the financial statements on the following notes:<br><br>• Note 1.24 – Financial Instruments (IFRS 9) – Amounts due from related parties<br><br>• Note 37 – Related Parties |
| How we addressed the Key Audit Matter | Our Procedures relating to related party relationships, transactions and balances included, amongst others:<br><br>• Inquired from management and those charged with governance, and performed other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, established to identify, account for, and disclose related party relationships and transactions in the financial statements;<br><br>• We maintained alertness for related party information when reviewing records and other supporting documents during the fieldwork phase of the audit;<br><br>• We reviewed an extensive list of business documents and compiled a list of related parties and related party transactions independently;<br><br>• Where management asserted that the transactions are in fact at arm's length, assessed this assertion by:<br><br>- Comparing the terms of the related party transactions to those of an identical or similar transaction with one or more non-related parties;<br><br>- Comparing the terms of the transaction to known market terms for broadly similar transactions on an open market;<br><br>- Considering the appropriateness of management's process for supporting the assertion;<br><br>- Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance; and<br><br>- Evaluating the reasonableness of any significant assumptions on which the assertion is based.<br><br>- We have engaged our forensic and IT audit experts to assess representations made by management and critically evaluated this against information gathered from various legal reports and independent inquiries.<br><br>We have assessed and evaluated the presentation and disclosure of the above matter, as set out in the note 1.24 (Financial Instruments (IFRS 9) – Amounts due from related parties) and note 37 (Related Parties). |

| *MATTER #05* | IMPACT OF THE OUTBREAK OF COVID-19 ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS |
|---|---|
| Description of Key Audit Matter | Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 is causing widespread disruption to normal patterns of business activity across the world, including Botswana.<br><br>The disclosure associated with COVID-19 is set out in the financial statements on the following notes:<br>• Note 1.30 – Significant judgments and sources of estimation uncertainty; and<br>• Note 42 – Going concern<br><br>Due to the impact of COVID-19 and the uncertainty surrounding the final impact of COVID-19 on the group, it was judged to be a key audit matter. |
| How we addressed the Key Audit Matter | We assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the impact of the outbreak of COVID-19 would not affect the preparation of the consolidated and separate financial statements on the going concern basis. We considered:<br>- The timing of the development of the outbreak across the world and in Botswana; and<br>- How the consolidated and separate financial statements and business operations of the Group and Company might be impacted by the disruption.<br><br>We received an assessment performed by management. We engaged an auditor's expert to review management's assessment, which included, inter alia the following:<br>- We reviewed management's going concern assessment incorporating the impact of COVID-19 implications. We made enquiries of management to understand the period of assessment considered by them;<br>- We evaluated the key assumptions in the assessment prepared by management and assessed the reasonableness of assumptions used given the information existing at the date of the audit procedures;<br>- We examined the cash flow forecasts and evaluated whether management's conclusion regarding going concern is appropriate; and<br>- We evaluated the adequacy and disclosure in respect of COVID-19 implications, disclosures within principal risks and uncertainties, post balance sheet events and going concern.<br>- We have assessed and evaluated the presentation and disclosure of the above matter, as set out in the note 1.30 (Significant judgments and sources of estimation uncertainty) and note 42 (Going Concern). |

**Other information**

The directors are responsible for other information. The other information comprises the Group's annual report and does not include the consolidated and separate annual financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the information is materially inconsistent with the consolidated and separate annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Directors' Responsibilities for the Consolidated and Separate Annual Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated annual 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 annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate annual financial statements, the directors are responsible for assessing the group's and 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 company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibility for the audit of the consolidated and separate annual financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
    - Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
    - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the latter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars

**Mazars**
**Certified Auditors**
**Practicing member: Shashikumar Velambath**
**Membership number: 19980076**

**Date: 24 July 2020**
**Gaborone**

## Statements of Profit or Loss and Other Comprehensive Income

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Pula thousand | Note(s) | 2019 | 2018 | 2019 | 2018 |
| Revenue | 4 | 9 620 187 | 10 791 295 | - | 25 876 |
| Cost of sales | 5 | (7 724 374) | (8 728 879) | - | - |
| **Gross profit** | | **1 895 813** | **2 062 416** | **-** | **25 876** |
| Other operating income | 6 | 82 117 | 52 119 | - | - |
| (Loss)/gain on disposal of plant and equipment | 7 | (855) | 3 044 | - | - |
| Impairment losses | 8 | (52 999) | (334 669) | (226 534) | (331 375) |
| Administrative Expenses | 8 | (1 805 824) | (1 730 252) | (806) | (483) |
| Selling and distribution expenses | 8 | (122 846) | (76 655) | - | - |
| Net monetary loss on translating Zimbabwean entities | | (354) | - | - | - |
| Other operating expenses | | (317 981) | (292 224) | - | - |
| **Operating loss** | 8 | **(322 929)** | **(316 221)** | **(227 340)** | **(305 982)** |
| Finance income | 9 | 1 187 | 3 543 | - | - |
| Finance costs | 10 | (80 110) | (78 702) | - | - |
| **Loss before taxation** | | **(401 852)** | **(391 380)** | **(227 340)** | **(305 982)** |
| Taxation | 11 | (26 840) | (53 129) | - | - |
| **Loss for the year** | | **(428 692)** | **(444 509)** | **(227 340)** | **(305 982)** |
| **Other comprehensive income:** | | | | | |
| **Items that may be reclassified to profit or loss:** | | | | | |
| Exchange differences on translating foreign operations in hyperinflationary economies | 27 | 71 392 | - | - | - |
| Exchange differences on translating foreign operations | 28 | (299 111) | (1 114) | - | - |
| **Other comprehensive loss for the year net of taxation** | | **(227 719)** | **(1 114)** | **-** | **-** |
| **Total comprehensive loss for the year** | | **(656 411)** | **(445 623)** | **(227 340)** | **(305 982)** |
| **Loss attributable to:** | | | | | |
| Owners of the parent | | (393 662) | (418 075) | (227 340) | (305 982) |
| Non-controlling interest | | (35 030) | (26 434) | - | - |
| | | **(428 692)** | **(444 509)** | **(227 340)** | **(305 982)** |
| **Total comprehensive loss attributable to:** | | | | | |
| Owners of the parent | | (623 118) | (420 013) | (227 340) | (305 982) |
| Non-controlling interest | | (33 293) | (25 610) | - | - |
| | | **(656 411)** | **(445 623)** | **(227 340)** | **(305 982)** |
| **Earnings per share** | | | | | |
| **Basic earnings per share and diluted earnings per share** | | | | | |
| Basic loss per share (thebe) | 12 | (30.20) | (32.07) | | |
| Diluted loss per share (thebe) | 12 | (30.20) | (32.07) | | |
| **Headline earnings and diluted headline earnings per share** | | | | | |
| Basic loss per share (thebe) | 12 | (25.87) | (6.84) | - | - |
| Diluted loss per share (thebe) | 12 | (25.87) | (6.84) | - | - |

## Choppies Enterprises Limited

(Registration number BW00001142508)
Consolidated and Separate Annual Financial Statements for the year ended 30 June 2019

## Statements of Financial Position as at 30 June 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Pula thousand | Note(s) | 2019 | 2018 | 2019 | 2018 |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 13 | 1 056 020 | 1 275 628 | - | - |
| Goodwill and intangible asset | 14 | 86 414 | 178 983 | - | - |
| Investments in subsidiaries | 15 | - | - | 104 075 | 282 964 |
| Deferred taxation assets | 16 | - | 5 795 | - | - |
| Investments in new projects | 17 | 27 018 | 107 392 | - | - |
| | | **1 169 452** | **1 567 798** | **104 075** | **282 964** |
| **Current Assets** | | | | | |
| Inventories | 19 | 574 069 | 956 504 | - | - |
| Amounts due from related entities | 18 | 14 956 | 22 425 | 269 413 | 331 256 |
| Other financial assets | 20 | 3 | 2 190 | - | - |
| Advances and deposits | 21 | 82 502 | 80 830 | - | - |
| Trade and other receivables | 22 | 96 449 | 202 576 | - | - |
| Current tax receivable | | 16 676 | 17 646 | - | - |
| Restricted cash | 23 | 26 300 | 41 375 | - | - |
| Cash and cash equivalents | 24 | 206 715 | 121 376 | 474 | 477 |
| | | **1 017 670** | **1 444 922** | **269 887** | **331 733** |
| **Total Assets** | | **2 187 122** | **3 012 720** | **373 962** | **614 697** |
| **Equity** | | | | | |
| Stated capital | 25 | 906 196 | 906 196 | 906 196 | 906 196 |
| Treasury shares | 26 | (29 616) | (29 616) | - | - |
| Hyper inflationary reserve | 27 | 71 392 | - | - | - |
| Foreign currency translation reserve | 28 | (294 849) | 5 999 | - | - |
| Retained loss | | (676 179) | (280 257) | (532 719) | (305 379) |
| Equity Attributable to Equity Holders of Parent | | (23 056) | 602 322 | 373 477 | 600 817 |
| Non-controlling interest | 15 | (57 091) | (26 058) | - | - |
| | | **(80 147)** | **576 264** | **373 477** | **600 817** |
| **Liabilities** | | | | | |
| **Non-Current Liabilities** | | | | | |
| Long term borrowings | 31 | 626 707 | 708 755 | - | - |
| Straight lining lease obligation | 33 | 119 110 | 73 274 | - | - |
| Deferred taxation liabilities | 16 | 32 262 | 41 910 | - | - |
| | | **778 079** | **823 939** | **-** | **-** |
| **Current Liabilities** | | | | | |
| Trade and other payables | 34 | 1 055 225 | 1 312 289 | 485 | 202 |
| Amounts due to related entities | 18 | 118 002 | 42 675 | - | 13 678 |
| Current portion of long-term borrowings | 31 | 46 117 | 106 730 | - | - |
| Current portion of straight lining lease obligation | 33 | 16 303 | 32 355 | - | - |
| Current tax payable | | 5 388 | 12 020 | - | - |
| Bank overdraft | 24 | 248 155 | 106 448 | - | - |
| | | **1 489 190** | **1 612 517** | **485** | **13 880** |
| **Total Liabilities** | | **2 267 269** | **2 436 456** | **485** | **13 880** |
| **Total Equity and Liabilities** | | **2 187 122** | **3 012 720** | **373 962** | **614 697** |

## Statements of Changes in Equity

| Figures in Pula thousand | Stated capital | Foreign currency translation reserve | Hyperinflationary translation reserve | Treasury shares | Retained loss | Total attributable to equity holders of the group / company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Balance at 01 July 2017** | **906 196** | **7 936** | **-** | **(30 720)** | **168 778** | **1 052 190** | **(17 825)** | **1 034 365** |
| Loss for the year | - | - | - | - | (418 075) | (418 075) | (26 434) | (444 509) |
| Other comprehensive (loss)/income | - | (1 937) | - | - | - | (1 937) | 824 | (1 113) |
| **Total comprehensive Loss for the year** | **-** | **(1 937)** | **-** | **-** | **(418 075)** | **(420 012)** | **(25 610)** | **(445 622)** |
| Shares granted in terms of the share incentive scheme | - | - | - | 1 104 | - | 1 104 | - | 1 104 |
| Other equity adjustments* | - | - | - | - | (831) | (831) | - | (831) |
| Minority contribution to share capital | - | - | - | - | - | - | 17 377 | 17 377 |
| Dividends paid | - | - | - | - | (30 129) | (30 129) | - | (30 129) |
| **Total distributions to owners of company recognised directly in equity** | **-** | **-** | **-** | **1 104** | **(30 960)** | **(29 856)** | **17 377** | **(12 479)** |
| **Balance at 30 June 2018** | **906 196** | **5 999** | **-** | **(29 616)** | **(280 257)** | **602 322** | **(26 058)** | **576 264** |

**Other equity adjustments*-** unidentified differences as a result of restatement of figures for the year ended 30 June 2017, recognised in retained earnings.

## Statements of Changes in Equity

| Figures in Pula thousand | Stated capital | Foreign currency translation reserve | Hyperinflationary translation reserve | Treasury shares | Retained loss | Total attributable to equity holders of the group / company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Balance at 01 July 2018** | **906 196** | **5 999** | **-** | **(29 616)** | **(280 257)** | **602 322** | **(26 058)** | **576 264** |
| Loss for the year | - | - | - | - | (393 662) | (393 662) | (35 030) | (428 692) |
| Other comprehensive (loss)/income | - | (300 848) | 71 392 | - | - | (229 456) | 1 737 | (227 719) |
| **Total comprehensive Loss for the year** | **-** | **(300 848)** | **71 392** | **-** | **(393 662)** | **(623 118)** | **(33 293)** | **(656 411)** |
| Changes in ownership interest - control not lost | - | - | - | - | (2 260) | (2 260) | 2 260 | - |
| **Total distributions to owners of company recognised directly in equity** | **-** | **-** | **-** | **-** | **(2 260)** | **(2 260)** | **2 260** | **-** |
| **Balance at 30 June 2019** | **906 196** | **(294 849)** | **71 392** | **(29 616)** | **(676 179)** | **(23 056)** | **(57 091)** | **(80 147)** |
| Note | 25 | 28 | 27 | | | | | |

## Statements of Changes in Equity

| Figures in Pula thousand | Stated capital | Retained loss | Total equity |
|---|---|---|---|
| **Company** | | | |
| **Balance at 01 July 2017** | **906 196** | **26 479** | **932 675** |
| Loss for the year | - | (305 982) | (305 982) |
| Other comprehensive income | - | - | - |
| **Total comprehensive Loss for the year** | **-** | **(305 982)** | **(305 982)** |
| Dividends paid | - | (25 876) | (25 876) |
| **Total distributions to owners of company recognised directly in equity** | **-** | **(25 876)** | **(25 876)** |
| **Balance at 01 July 2018** | **906 196** | **(305 379)** | **600 817** |
| Loss for the year | - | (227 340) | (227 340) |
| Other comprehensive loss | - | - | - |
| **Total comprehensive Loss for the year** | **-** | **(227 340)** | **(227 340)** |
| **Balance at 30 June 2019** | **906 196** | **(532 719)** | **373 477** |

## Statements of Cash Flows

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Pula thousand | Note | 2019 | 2018 | 2019 | 2018 |
| **Cash flows from operating activities** | | | | | |
| Loss before taxation | | (401 852) | (391 380) | (227 340) | (305 982) |
| **Adjustments for:** | | | | | |
| Depreciation, write-off and amortisation | | 226 199 | 207 579 | - | - |
| Losses/(gains) on disposals plant and equipment | | 855 | (3 044) | - | - |
| Finance income | | (1 187) | (3 543) | - | - |
| Finance costs | | 80 110 | 78 702 | - | - |
| Movement in investments in new projects expensed during the year | 17 | 1 775 | - | - | - |
| Impairment losses net of reversals | | 52 999 | 334 669 | 226 534 | 331 375 |
| Movements in straight lining lease obligation | | 29 784 | 24 790 | - | - |
| Movement in deposits | | (2 272) | - | - | - |
| Restricted cash | | 15 075 | - | - | - |
| Other financial assets | | 2 187 | - | - | - |
| Vesting of treasury shares | | - | 1 104 | - | 1 104 |
| **Changes in working capital:** | | | | | |
| Movement in inventories | | 382 435 | 39 263 | - | - |
| Movement in trade and other receivables | | 98 149 | (92 757) | - | 20 |
| Movement in advances and deposits | | (2 829) | 12 781 | - | - |
| Movement in amount due from related entities | | 11 145 | 13 441 | (3 681) | 72 934 |
| Movement in trade and other payables | | (257 064) | 287 717 | 283 | 16 |
| Movement in amount due to related entities | | 75 327 | (28 410) | 4 201 | - |
| **Cash generated from operations** | | **310 836** | **480 912** | **(3)** | **99 467** |
| Interest received | 9 | 1 187 | 3 543 | - | - |
| Dividends paid | | - | (30 129) | - | (25 876) |
| Taxation paid | | (29 622) | (34 399) | - | - |
| **Net cash generated from operating activities** | | **282 401** | **419 927** | **(3)** | **73 591** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 13 | (151 498) | (389 204) | - | - |
| Proceeds on disposal of property, plant and equipment | | 70 501 | 26 127 | - | - |
| Acquisition of businesses | 36 | - | (155 719) | - | - |
| Investment in subsidiaries | | - | - | - | (73 544) |
| Purchase of financial assets | | - | (2 187) | - | - |
| Investment in new projects | | (39 542) | (73 712) | - | - |
| Increase in restricted cash | | - | (25 930) | - | - |
| **Net cash used in investing activities** | | **(120 539)** | **(620 625)** | **-** | **(73 544)** |

## Statements of Cash Flows

| | | Group | | Company | |
|---|---|---|---|---|---|
| Figures in Pula thousand | Note(s) | 2019 | 2018 | 2019 | 2018 |
| **Cash flows from financing activities** | | | | | |
| Financing obtained from third parties | 32 | 35 155 | 352 846 | - | - |
| Capital payments of long-term liabilities | 32 | (177 816) | (209 672) | - | - |
| Minority contribution to share capital | | - | 17 377 | - | - |
| Interest paid | 10 | (80 110) | (78 702) | - | - |
| **Net cash (used in)/generated from financing activities** | | **(222 771)** | **81 849** | **-** | **-** |
| **Net movement in cash and cash equivalents** | | **(60 909)** | **(118 849)** | **(3)** | **47** |
| Cash and cash equivalents at beginning of the year | | 14 928 | 103 483 | 477 | 430 |
| Effect of translation of foreign entities | | 4 541 | 30 294 | - | - |
| **Cash and cash equivalents at end of the year** | 24 | **(41 440)** | **14 928** | **474** | **477** |

# Accounting policies

**Corporate information**

Choppies Enterprises Limited (CEL, the company or the Company) is a public limited company incorporated and domiciled in the Republic of Botswana and listed on the Botswana Stock Exchange. The company has a secondary listing on the Johannesburg Stock Exchange. The company registration number is BW00001142508. The consolidated financial statements comprise the company and its subsidiaries (collectively referred to as "the Group").

The business of the Group is concentrated in the retail supermarket industry. The Group operates in Botswana, South Africa, Zambia, Kenya, Tanzania, Mozambique, Zimbabwe and Namibia.

## 1. Accounting policies

The consolidated and separate financial statements ("the financial statements") are prepared in accordance with the International Financial Reporting Standards ("IFRS") and the Johannesburg Stock Exchange requirements and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The financial statements were approved by the Board of Directors on 24 July 2020.

### 1.1 Basis of preparation

The Group and company financial statements are presented in Botswana Pula, which is also the functional currency of the company. All amounts have been rounded to nearest thousands, except where otherwise stated.

Certain individual companies in the Group have different functional currencies and are translated on consolidation.

The financial statements are prepared on the historical cost basis, except for certain financial instruments which are measured at fair value and Zimbabwean operations translated on a current cost basis as required by IAS 29 "Financial Reporting in a Hyperinflationary Economies". The financial statements incorporate the following accounting policies which are consistent with those applied in the previous year, except where otherwise stated.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in significant judgements and sources of estimation uncertainty in note 1.30.

### 1.2 Consolidation

**Basis of consolidation**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Transaction costs are expressed as incurred except if it refers to the issue of debt or equity securities. Any goodwill that arises is tested annually for impairment (refer to note 8&14).

**Goodwill**
All goodwill is acquired through business combinations and initially measured at fair value of the consideration transferred. The goodwill consists of the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to the individual cash-generating units and is tested annually for impairment. An impairment loss is recognised if the present value of the estimated future cash flows arising from the identified units is exceeded by the carrying amount of the assets and liabilities of the unit including goodwill or the fair value less the cost to sell off the cash-generating unit exceeds the carrying amount of goodwill. An impairment loss is recognised in profit or loss in the year in which it is identified. An impairment loss in respect of goodwill is not reversed.

**Investments in subsidiaries**
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Investments in subsidiaries are measured at cost less accumulated impairment losses in the company financial statements.

## Accounting policies

**1. Accounting policies (continued)**

**1.2 Consolidation (continued)**

**Transactions eliminated on consolidation**
Intragroup balances, and income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Non-controlling interest (“NCI”)**
NCIs are disclosed separately in the Group statement of financial position and statement of profit or loss and other comprehensive income. NCIs are viewed as equity participants of the Group and all transactions with NCIs are therefore accounted for as equity transactions and included in the Group statement of changes in equity.

NCIs are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

**Loss of control**
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

**Changes in Group’s interests in subsidiaries**
Changes in the Group’s interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions.

**1.3 Property, plant and equipment**

Property, plant and equipment items are initially recognised at cost and subsequently measured at cost less accumulated depreciation and impairment.

**Depreciation**
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of property, plant and equipment. The items of property, plant and equipment (except freehold land) are depreciated by applying the following useful lives:

| Item | Average useful life |
|---|---|
| Buildings | 14 years |
| Plant and machinery | |
| • Bakery equipment | 4 - 20 years |
| • Butchery and takeaway equipment | 5 - 17 years |
| • Refrigeration equipment | 7 - 14 years |
| • Cold-room and compressors, generators | 7 - 20 years |
| • Electrical and fittings | 6 - 14 years |
| • Others | 6 - 7 years |
| Office equipment, furniture and fixtures | |
| • Shelving | 7 - 14 years |
| • Check out tills | 6 - 14 years |
| • Drop safes | 20 - 29 years |
| • Others | 10 years |
| Motor vehicles | 4 - 10 years |
| IT equipment | 3 - 10 years |
| Leasehold improvements | Over the lease term |
| Aircraft | 4 years |

Freehold land is not depreciated as it is considered to have an indefinite useful life.

# Accounting policies

**1. Accounting policies (continued)**

**1.3 Property, plant and equipment (continued)**

The residual value of each part of property, plant and equipment, if not insignificant, is reassessed annually. The expected useful lives are determined by a combination of comparison to industry, assessment of operational plans and strategies, actual experience and taking cognizance of advice from external experts.

Each part of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Gains and losses on disposal are determined by comparing proceeds with the carrying amounts and are recognised in profit or loss.

Repairs and maintenance costs are recognised in profit or loss during the financial period in which these costs are incurred. The cost of a major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits will flow to the Group. Major renovations are depreciated over the period until the next major renovation is required, which may be shorter than the remaining life of the related asset.

Subsequent expenditures are capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

**1.4 Contingent liabilities**

Contingent liabilities relate to guarantees or collateral issued to financial institutions and suppliers in respect of banking facilities granted or provision of goods and services to Group companies. Certain companies in the group also provide financial support to fellow subsidiary companies whose total liabilities exceed total assets at the reporting date.

Contingent liabilities are not recognised on the statement financial position until the contingency becomes probable and the amount of the liability can be reasonably estimated. Management applies its judgement to information received from its attorneys and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgement application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability.

**1.5 Investments in new projects**

Investments in new projects relates to capital expenditure incurred with regard to new stores to be opened in the following financial year. Investments in new projects is stated at cost. The amounts are transferred to respective asset classes when the assets are available for their intended use. Depreciation commences when the assets are ready for their intended use.

**1.6 Impairment of assets**

**Non-financial assets**
The carrying values of non-financial assets (except for deferred tax assets and inventories) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. Impairment losses are recognised in profit or loss. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets, such as goodwill, which have indefinite useful lives and are not subject to depreciation or amortisation, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

Impairment losses recognised in the prior periods are assessed at each reporting date for any indication that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

## Accounting policies

**1. Accounting policies (continued)**

**1.7 Leases**

**Finance leases – lessee**

Leases are classified as finance leases where substantially all the risk and rewards associated with ownership of the asset are transferred from the lessor to the Group as a lessee.

Assets acquired in terms of finance leases are capitalised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Finance lease assets are carried at the initial recognised amounts less accumulated depreciation and impairment losses.

The lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance lease liabilities are classified as non-current liabilities, with the exception of the portion with a maturity date less than 12 months from the reporting date which is classified as a current liability.

Finance lease assets are depreciated over the shorter of the useful life of the asset or the lease term.

**Operating leases – lessee**

Leases where the lessor retains risk and rewards of ownership of the underlying asset are classified as operating leases. The Group acts as a lessee. Payments made under an operating lease are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

Operating lease liabilities are classified as non-current liabilities with the exception of the portion with a maturity date of less than 12 months from the reporting date which is disclosed as a current liability.

Any contingent rent are recognised as and when it is determined and recognised in profit or loss.

**1.8 Inventories**

Inventories comprise merchandise for resale and consumables. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

The cost of inventories is based on the weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, including distribution costs, and is stated net of relevant purchase incentives. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

**1.9 Tax and deferred taxation**

**Deferred tax assets and liabilities**

Deferred taxation is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

## Accounting policies

**1. Accounting policies (continued)**

**1.9 Tax and deferred taxation (continued)**

Deferred tax is not recognised for:

> temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
> temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
> taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

Deferred taxation is recognised in profit or loss, except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, or a business combination. The effect on deferred tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improve.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available against which they can be utilised.

**Tax expenses**

Taxation comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income. Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, after taking account of income and expenditure which is not subject to taxation, and any adjustment to tax payable/refundable in respect of previous years.

**Dividends withholding tax**

Dividends withholding tax is a tax on shareholders and is applicable on all dividends declared. Withholding tax applicable in Botswana for both residents and non-residents is 7.5%. Dividends payable to non-exempt shareholders registered on the Johannesburg Stock Exchange are subject to 20% withholding tax in accordance with the South African Income Tax Act 58 of 1962, unless varied in accordance with any relevant Double Tax Agreement.

**1.10 Employee benefits**

**Short-term employee benefits**

The cost of all short-term employee benefits is recognised as an expense during the period in which the employee renders the related service. Employee entitlements to annual leave, bonuses, medical aid and housing benefits are recognised when they accrue to employees and an accrual is recognised for the estimated liability as a result of services rendered by employees up to the reporting date.

**Severance benefits**

Employees who are not members of an approved pension scheme or entitled to gratuities per their employee contracts, are entitled to severance benefits as regulated by the Botswana Labour Laws. An accrual is recognised for the estimated liability for services rendered by the employees up to reporting date, this is related to other long term employee benefits.

## Accounting policies

**1. Accounting policies (continued)**

**1.10 Employee benefits (continued)**

**Gratuities**

The Group operates a gratuity scheme for expatriates in terms of employment contracts and a gratuity is not considered to be a retirement benefit plan as the benefits are payable on completion of employment contract period of continuous employment or on termination of employment at the option of the employee. The expected gratuity liability is provided in full by way of accrual.

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to approved defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which the related services were rendered.

**1.11 Share incentive scheme**

**Share incentive scheme**
The Group introduced an employee share incentive scheme. The shares are held in a trust, Choppies Group Share Incentive Trust until they are granted to employees. The shares are held in and remain under the control of the trust until such shares are vested to employees.

On the grant date, fair value of the equity-settled share-incentive scheme arrangements granted to employees is recognised as an expense, with a corresponding increase in equity over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date.

**1.12 Revenue**

Revenue arises mainly from the sale of goods. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or good to a customer.

To determine whether to recognise revenue, the Group follows a 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/as performance obligation(s) are satisfied.

The Group often enters into transactions involving a range of the company's products and goods, for example for the sale of consumers goods. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised at a point in time, when (or as) the Group satisfies performance obligations by transferring the promised goods to its customers.

**1.13 Operating expenses**

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

**1.14 Interest income**

Interest income is recognised as it accrues in profit or loss using the effective interest method.

**1.15 Interest costs**

Interest cost is recognised in profit or loss in the period in which these expenses are incurred using the effective interest method.

## Accounting policies

**1. Accounting policies (continued)**

**1.16 Earnings and headline earnings per share**

The Group presents basic and diluted earnings per share ("EPS") and headline earnings per share ("HEPS") information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss after taxation attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss after taxation attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Headline earnings are calculated in accordance with Circular 1/2019 issued by the South African Institute of Chartered Accountants as required by the Johannesburg Stock Exchange Listings Requirements.

**1.17 Dividend per share**

Dividends per share are calculated based on the dividends declared during the year compared to the number of ordinary shares in issue at the time of declaration.

**1.18 Stated capital, hyper-inflation reserve, foreign currency translation reserve and retained (loss) profit**

**Stated capital**
Ordinary shares are classified as stated capital. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Other components of equity include the following:

- Foreign currency translation reserve - comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Botswana Pula.
- Retained (loss) profit - includes all current and prior period retained (loss) profits.
- Treasury shares - refer to accounting policy 1.19
- Hyperinflationary reserve - this is the effect of all components of shareholders equity that are restated by applying a general price index from the beginning period or dates on which those items arose.

**1.19 Treasury shares**

The Group operates a share incentive scheme classified as treasury shares and are presented as a deduction from equity. Dividend income on treasury shares are eliminated on consolidation.

**1.20 Dividend income**

Dividend income is recognised when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares.

**1.21 Dividends distributed to shareholders**

Dividends are recorded in the period in which they have been declared and are recognised directly in equity. Dividends declared after the reporting date are not recognised as a liability in the statements of financial position.

**1.22 Operating segments**

The Group discloses segmental financial information which is being used internally by the entity's chief executive officer ("CEO") in order to assess performance and allocate resources. Operating segments are individual components of an entity that engage in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the entity's CEO and for which discrete financial information is available. Operating segments, per geographical regions, are aggregated for reporting purposes.

## Accounting policies

**1. Accounting policies (continued)**

### 1.23 Translation of foreign currencies

**Transactions in foreign currencies**

Transactions in foreign currencies are translated to Botswana Pula at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities designated in foreign currencies are subsequently translated to Pula at the foreign exchange rate ruling reporting date. Non-monetary assets and liabilities are consistently translated at rates of exchange ruling at acquisition dates. Foreign exchange differences arising on translation are recognised in profit or loss.

**Foreign operations**

The assets and liabilities of foreign operations, which are not accounted for as entities operating in hyperinflationary economy, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated at the weighted average rate of exchange for the year, except to the extent that the translation differences are allocated to NCI. Profits or losses arising on the translation of assets and liabilities of foreign entities are recognised in other comprehensive income and presented within equity and shown separately in a foreign currency translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

**Translation of foreign operations in hyperinflationary economies**

The results of Zimbabwe operations is translated at the closing rate on 30 June 2019 as per IAS 21 paragraph 42(a). Since the amount are translated into the currency of the non-hyperinflationary economy, comparative amounts of previous year are not restated IAS 21 paragraph 42(b).

### 1.24 Financial instruments (IFRS 9)

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the Group ,as applicable, are as follows:

Financial assets which are equity instruments:
- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:
- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:
- Mandatorily at fair value through profit or loss.

Financial liabilities:
- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or

# Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a Group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Risk management presents the financial instruments held by the Group based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

**Amounts due from related parties at amortised cost**

**Classification**

Amounts due from related parties (note 18) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these amounts due from related parties give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these amounts.

**Recognition and measurement**

Amounts due from related parties are recognised when the Group becomes a party to the contractual provisions of the amounts due. Amounts due from related parties are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the amounts due from related parties initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Impairment**

The Group recognises a loss allowance for expected credit losses on all amounts due from related parties measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

## Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Significant increase in credit risk**

In assessing whether the credit risk on amounts due from related parties has increased significantly since initial recognition, the Group compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on amounts due from related parties is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

**Definition of default**

For purposes of internal credit risk management purposes, the Group consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the Group considers that default has occurred when a loan installment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Write off policy**

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. amounts due from related parties written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries/reversals made are recognised in profit or loss in impairment (note 8).

# Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Measurement and recognition of expected credit losses (ECL)**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. amounts due from related parties are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each Group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and vice-versa.

An impairment gain or loss is recognised for all amounts due from related parties in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in material operating items requiring separate disclosure in profit or loss as a movement in credit loss allowance (note 8).

**Credit risk**

Details of credit risk related to amounts due from related parties are included in the specific notes(Refer to note 18).

**Derecognition**

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of a loan receivable is included in profit or loss in impairment.

**Trade and other receivables**

**Classification**

Trade and other receivables, excluding, where applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

**Recognition and measurement**

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

## Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Application of the effective interest method**

For receivables which contain a significant financing component, interest income is calculated using the effective interest method, and is included in profit or loss under investment income (note 9).

The application of the effective interest method to calculate interest income on trade receivables is dependent on the credit risk of the receivable as follows:

- The effective interest rate is applied to the gross carrying amount of the receivable, provided the receivable is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a receivable is a purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the receivable, even if it is no longer credit-impaired.
- If a receivable was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the receivable in the determination of interest. If, in subsequent periods, the receivable is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

**Trade and other receivables denominated in foreign currencies**

When trade and other receivables are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in selling and distribution expenses.

Details of foreign currency risk exposure and the management thereof are provided in the risk management (note 39).

**Impairment**

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

**Measurement and recognition of expected credit losses**

The Group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality. Details of the provision matrix is presented in note 22.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in material operating items requiring separate disclosure in profit or loss as a movement in credit loss allowance (note 8).

**Write off policy**

The Group writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

# Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Credit risk**

Details of credit risk are included in the trade and other receivables note (note 22) and the risk management (note 39).

**Derecognition**

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss.

**Investments in equity instruments**

**Classification**

Investments in equity instruments are presented in note 20. They are classified as mandatorily at fair value through profit or loss. As an exception to this classification, the Group may make an irrevocable election, on an instrument by instrument basis, and on initial recognition, to designate certain investments in equity instruments as at fair value through other comprehensive income. To date this election has not been made.

The designation as at fair value through other comprehensive income is never made on investments which are either held for trading or contingent consideration in a business combination.

**Recognition and measurement**

Investments in equity instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. Transaction costs are added to the initial carrying amount for those investments which have been designated as at fair value through other comprehensive income. All other transaction costs are recognised in profit or loss.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised either in profit or loss. Details of the valuation policies and processes are presented in note 20.

Fair value gains or losses recognised on investments at fair value through profit or loss.

Dividends received on equity investments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in other income.

**Impairment**

Investments in equity instruments are not subject to impairment provisions.

**Derecognition**

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

# Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Investments in debt instruments at fair value through profit or loss**

**Classification**

Certain investments in debt instruments are classified as mandatorily at fair value through profit or loss. These investments do not qualify for classification at amortised cost or at fair value through other comprehensive income because either the contractual terms of these instruments do not give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, or the objectives of the Group business model are met by selling the instruments rather than holding them to collect the contractual cash flows.

The Group hold investments in equity (note 20) which are mandatorily at fair value through profit or loss.

**Recognition and measurement**

Investments in debt instruments at fair value through profit or loss are recognised when the Group becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

Fair value gains or losses are included in note 7 other operating gains (losses). The fair values of financial assets in this category are determined by reference to active market. Details of the valuation policies and processes are presented in note 40.

Interest received on debt instruments at fair value through profit or loss are included in investment income (note 9).

**Impairment**

Investments in debt instruments at fair value through profit or loss are not subject to impairment provisions.

**Borrowings and loans from related parties**

**Classification**

Amounts due from related companies (note 18) and borrowings (note 31) are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

Borrowings and loans from related parties are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in profit or loss in finance costs (note 10.)

Borrowings expose the Group to liquidity risk and interest rate risk. Refer to note 39 for details of risk exposure and management thereof.

## Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Amounts denominated in foreign currencies**

When borrowings are denominated in a foreign currency, the carrying amount of the amount is determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the selling and distribution expenses.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the risk management (note 39).

**Derecognition**

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

**Trade and other payables**

**Classification**

Trade and other payables (note 34), excluding VAT payable and amounts received in advance, are classified as financial liabilities and subsequently measured at amortised cost.

**Recognition and measurement**

They are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a material financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the Group to liquidity risk. Refer to risk management.

**Trade and other payables denominated in foreign currencies**

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the closing rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss.

Details of foreign currency risk exposure and the management thereof are provided in the risk management .

**Derecognition**

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

# Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Cash and cash equivalents**

Cash and cash equivalents are stated at amortised cost which is deemed to approximate fair value.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, which are repayable on demand and form any integral part of the company's cash management, are included as a component of cash and cash equivalents for the purpose of the statements of cash flows.

**Bank overdrafts**

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Derecognition**

**Financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**Reclassification**

**Financial assets**

The Group only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

**Financial liabilities**

Financial liabilities are not reclassified.

**1.25 Financial instruments: IAS 39 comparatives**

**Recognition of financial instruments**

A financial instrument is initially recognised when the Group becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, which includes directly attributable transaction costs in the case of financial assets and financial liabilities not at fair value through profit or loss. Subsequent measurement for each category is specified in the sections below.

## Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Non-derivatives financial instruments**

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

**Financial assets**

The principal financial assets comprise the following:

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, which are repayable on demand and form an integral part of the company's cash management, are included as a component of cash and cash equivalents for the purpose of the statements of cash flows. Cash and cash equivalents and bank overdrafts are measured at amortised cost using the effective interest method, less accumulated impairment losses.

**Quoted investments**

Quoted equity securities are originally recognised at the fair value of consideration paid to acquire these securities. The equity securities are subsequently measured at their quoted price, which is derived from the securities exchange on which these securities are listed. Changes in the fair value of the investment are recognised in profit or loss at each reporting date. Quoted investments are classified as financial assets designated at fair value through profit or loss.

**Trade and other receivables including amounts due from related entities**

Trade and other receivables, including amounts due from related entities, are subsequently measured at amortised cost using the effective interest method, less an impairment accrual. Trade and other receivables including amounts due from related entities are classified as loans and receivables.

**Advances and deposits**

Advances and deposits relate to prepayments and consist of balances paid to third parties either in advance or to comply with contractual requirements. These amounts are recognised at the original amounts paid. Advances and deposits are classified as loans and receivables.

**Financial liabilities**

The principal financial liabilities comprise the following:

**Trade and other payables**

Liabilities for trade and other amounts payable, including amounts due to related entities, which are normally settled on 30 to 90-day terms, are measured at amortised cost using the effective interest method. Trade and other payables, including amounts due to related entities, are classified as financial liabilities at amortised cost.

**Interest bearing loans and borrowings**

Interest-bearing loans and borrowings are initially recognised at cost, being the fair value of the consideration received and include acquisition charges associated with the borrowing/loan. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on settlement. Interest-bearing loans and borrowings are classified as financial liabilities at amortised cost.

For liabilities carried at amortised cost, any gain or loss is recognised in profit or loss when the liability is derecognised, as well as through the amortisation process.

## Accounting policies

**1. Accounting policies (continued)**

**1.24 Financial instruments (continued)**

**Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of financial instruments are included in profit or loss in the period in which the change arises.

**Derecognition**

**Derecognition of financial assets**
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Derecognition of financial liabilities**
The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**1.26 Share incentive scheme**

The Group operates a share incentive scheme classified as treasury shares and are presented as a deduction from equity. Dividend income on treasury shares are eliminated on consolidation.

**1.27 Agency fees and commissions**

Commission from rendering of agency services is recognised as the services are provided in accordance with the terms of the agency agreement and is included in other income.

**1.28 Rebates from suppliers**

Consistent with standard industry practice, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning.

Rebates from suppliers is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

Amounts due relating to rebates from suppliers are recognised within trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued rebates are recognised within accrued income when rebates earned have not been invoiced at the statement of financial position date.

## Accounting policies

**1. Accounting policies (continued)**

**1.29 Accounting for hyperinflationary subsidiary**

To ease the pressure of a notable foreign currency shortage in that country, the Reserve Bank of Zimbabwe issued a monetary policy document on 1 October 2018 requiring banks to separate bank accounts into a foreign currency United States Dollar (USD) bank account and a local currency USD bank account. The local currency USD bank account is made up of Real Time Gross Settlement ("RTGS") and bond notes and does not trade on a 1:1 basis to the USD.

The shortage of foreign currency creates uncertainty on the amount and timing of amounts that can be repatriated from Zimbabwe. IAS 21, 'Foreign currency transactions' ("IAS 21") requires the use of a spot rate. The global foreign currency USD rate does not meet the conditions of a spot rate in IAS 21. Accordingly, with effect from 1 October 2018, the Group will apply an unadjusted parallel legal mechanism to translate the results and financial position of its Zimbabwean subsidiary. On 20 February 2019, the Reserve Bank of Zimbabwe ("RBZ ") Governor announced a new Monetary Policy Statement whose highlights were denomination of RTGS system balances, bond notes and coins collectively as RTGS $. RTGS become part of multi-currency system. RTGS $ to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions. The Monetary Policy Statement was followed by the publication of Statutory Instrument ("S.I.") 33 of 2019 on 22 February 2019, which gave effect to the introduction of the RTGS $ as a legal tender and prescribed that "for accounting and other purposes "certain assets and liabilities on the effective date would be deemed to be RTGS $ at a rate of 1:1 to US$ and would become opening RTGS $ values from effective date. In particular, the promulgation of RTGS $ as currency in the opinion of the directors, it was a response to the market perceptions which had come to regard RTGS balances and transactions as representing an underlying defacto currency. The Monetary Policy Statement also established an interbank foreign exchange market were the exchange rate would be determined by market forces. The interbank market opened trading at a rate of USD $ 1 to RTGS $ 2.5.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and the corresponding figures for the previous periods be stated in the same terms to the latest statement of financial position date. The restatement has been calculated by means of conversion factors derived from month on month consumer price index (CPI) prepared by the Zimbabwe Statistical Agency. The indices and conversion factors used to restate the financial statements as at 30 June 2019 are as follows;

| Date | Indices | Conversion factor |
|---|---|---|
| 30 June 2019 | 172.61 | 1.00 |

The main procedures applied for the above mentioned restatement are as follows;

Monetary assets and liabilities that are carried at amounts current at the statement of financial position date are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date.

Non-monetary assets and liabilities are treated as below;

**Plant and equipment**

The original cost of plant and equipment is restated from the date of purchase of each item to the statement of financial position date using the applicable general price index. The depreciation charge for the current period is calculated on the basis of the restated plant and equipment. Opening accumulated depreciation is also calculated on the basis of the restated plant and equipment.

Additions to plant and equipment are restated using the relevant conversion factors from the date of the transaction to the statement of financial position date. For disposals, the original date of purchase and the historical cost is determined and the restated balance is deducted from the plant and equipment.

The restated plant and equipment are assessed for impairment in accordance with IAS 36.

**Inventories**

Inventories are restated based on the ageing of the items using the increase in the general price index for the period from purchase dates to the statement of financial position date.

# Accounting policies

**1. Accounting policies (continued)**

All items in the statement of comprehensive income are restated by applying the relevant monthly conversion factors.

**Shareholders' Equity**

All components of shareholders equity are restated by applying a general price index from the beginning period or dates on which those items arose. Current year restated net income is added to the balance of restated opening retained earnings.

Comparative financial statements are restated by applying the general price index in terms of the measuring unit at the statement of financial position date.

The effect of inflation on the net monetary position is included in the statement of comprehensive income as a monetary gain or loss on the monetary position

All items in the cash flow statement are expressed in terms of the measuring unit current at the financial position date.

The fiscal and monetary policy pronouncements made in October 2018 led to the Directors' reassessment of the functional currency of the Group's Zimbabwe operations and a justification to conclude that, under IAS 21 Effects of Changes in Foreign Exchange Rates, there was a change in the functional currency from the United States Dollar to the Zimbabwe Dollar.

**1.30 Significant judgements and sources of estimation uncertainty**

The preparation of consolidated and separate annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Critical judgements in applying accounting policies**

Management did not make critical judgements in the application of accounting policies, apart from those involving estimations, which would significantly affect the financial statements.

**Key sources of estimation uncertainty**

**Impairment of trade receivables**

The Group follows the guidance of IFRS 9 to determine when a financial asset is impaired. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (refer to not 22).

**Allowance for slow moving, damaged and obsolete inventory**

Management assesses whether inventory is impaired by comparing its cost to its estimated net realisable value. Where an impairment is necessary, inventory items are written down to net realisable value. The write down is included in cost of sales.

**Fair value estimation**

Several assets and liabilities of the Group are either measured at fair value or disclosure is made of their fair values.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. Information about the specific techniques and inputs of the various assets and liabilities is disclosed in note 40.

## Accounting policies

**1. Accounting policies (continued)**

**1.30 Significant judgements and sources of estimation uncertainty (continued)**

**Impairment testing**

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

**Useful lives of property, plant and equipment**

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of buildings, plant and equipment, office equipment, furniture and fixtures, motor vehicles, IT equipment, leasehold improvements and aircraft are determined based on Group replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of property, plant and equipment is assessed annually based on a combination of comparison to industry, assessment of operational plans and strategies, actual experience and taking cognizance of advice from external experts.

**Determination of a functional currency of a foreign subsidiary**

Entities in Zimbabwe have been operating in a multi-currency regime since its adoption by the Zimbabwean Government in February 2009. The United States Dollar was predominantly used in the economy and was designated as the functional and presentation currency of businesses in Zimbabwe. Due to severe foreign currency constrains experienced in Zimbabwean economy, some entities have left foreign obligations unsettled for long periods of time. This position therefore led to the constrained exchangeability between the Real Time Gross Settlement (RTGS) FCA and the United States Dollar (USD) FCA for some entities. A lack of or constrained exchangeability arises if an entity is unable to readily exchange a currency for another currency through the legal exchange mechanism within a reasonably short period of time.

This led to the creation of a three (3) tier pricing structure within the Zimbabwe Economy where one product was being charged at different prices namely United States Dollar Cash, electronic payment, mobile money or bond notes. The pricing structure indicated that the majority of transactions in the economy were now largely being conducted in electronic money and bond notes at a premium to the United States Dollar with effect from October 2018.

During the year 2018, the following pronouncements were made by the Zimbabwean Authorities;

- In February 2018, the Reserve Bank of Zimbabwe instructed Banks to ring fence foreign currency deposits by foreign exchange earners;
- In October 2018, banks were instructed to separate and create distinct (separate) bank accounts for depositors, namely; RTGS FCA and Nostro FCA accounts effective 15 October 2018. The exchange rate remained fixed at 1:1 and the balances in the two types of accounts continued to be referred to as the United States Dollar (US$).
- The requirement by the Zimbabwe Revenue Authority (ZIMRA) through public Notice Number 45 of 2018 that businesses should remit taxes in the specific currencies in which they collected them without conversion to RTGS, bond notes, local point of sale and mobile money.

These pronouncements led to a market consensus amongst market participants that the economic reality was different. In light with the industry consensus on the matter and industry discussion that followed led to directors to change the functional currency of our business in Zimbabwe to the RTGS dollar with effect from 1 October 2018. The vast majority of our revenue was received and settled in RTGS and Bond notes.

On 20 February 2019, the Reserve Bank of Zimbabwe announced in a monetary policy statement that the RTGS would be recognized as a currency and Exchange Control Directive (RU 28 of 2019) formalized trading of the RTGS balances with other currencies. The Reserve Bank of Zimbabwe further issued Statutory Instrument 142 of 2019 on 24 June 2019 resulting in the renaming of the RTGS Dollar to the Zimbabwe Dollar (ZWL$) and the Zimbabwe Dollar became the only legal tender in Zimbabwe. With this change being made prior to year-end, we have referenced the currency for the Zimbabwe operations as Zimbabwe Dollar (ZW$).

## Accounting policies

**1. Accounting policies (continued)**

**1.30 Significant judgements and sources of estimation uncertainty (continued)**

The results of Zimbabwe operations is translated at the closing rate on 30 June 2019 as per IAS 21 paragraph 42(a). Since the amount are translated into the currency of the non-hyperinflationary economy, comparative amounts of previous year are not restated IAS 21 paragraph 42(b).

**Restricted cash**

Restricted cash deposits include an amount of P26.3 million (2018: 41.375 million) relating to the Zimbabwe operations. This is due to exchange control regulations as well as a shortage of physical currency. The rate used for conversion was the quoted ZWL bank rate (2018: USD bank rate). Refer to note 23. The company did not have the necessary clearance from the Reserve Bank of Zimbabwe to externalise funds at 30 June 2019.

**Business combinations**

Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. In particular, the fair value of contingent consideration is dependent on the outcome of many variables including the acquiree's future profitability.

**Control assessment of Payless**

During 2014, the company (CEL group which includes Choppies Distribution Centre (Pty) Ltd (CDC)) entered into a loan agreement with another retail group company, Payless Supermarkets (Pty) Ltd (Payless), a privately owned company with individuals as shareholders. The company extended facility to pay off the creditors of Payless and also provide guarantee to suppliers to supply Payless. The total amount over the period has added up to P 103m. Loan agreement also indicates the rate of interest payable, which is linked to Bank's prime rate of interest and payment term covering a period of five years. As a security the movable and immovable assets of the Payless are secured through a hypothecation clause. Furthermore, one of the shareholders of Payless has provided personal guarantee for the loan through a personal guarantee and sub-ordination of his shares, should default happen. The personal guarantee agreement has clauses which indicate that the company (CEL) can either take over the shares of Payless, if, it wants to or sell the shares to outsiders to recover its loan amount or liquidate the assets of the company to take back its loan.

The company as at 30 June 2019 has not been a shareholder of Payless nor does it have any individual sitting on the board of Payless. To secure the loan, the company has taken over the finance function of Payless whereby the accounting personnel operate from the company premises and one bank signatory is from the CEL and one from Payless. The company does not decide on the financial operations independently and all financial decisions are taken along with Payless shareholder giving acceptance for the same. Parallel to the loan agreement, the company entered into another agreement with Payless, to make the Payless Supermarkets (Pty) Ltd a part of its buying group. Buying group means, Payless will be supplied goods from the company to take advantage of the buying power the company exercises with various suppliers and also to earn a rebate.

The company passes part of the rebate to Payless group at its discretion. Apart from Payless there are a few other entities to which the company has provided such finance facility to be part of the buying group. The company is not the only supplier to Payless nor is there any restriction from where Payless can make its purchases.

Management has reassessed its involvement in Payless in accordance with IFRS 10’s control definition and guidance. It has concluded that Payless is not a subsidiary as the company does not have outright control over the operations of Payless Supermarkets (Pty) Ltd. The company is not an investor in Payless and only acted as a financier to Payless as detailed in the loan agreements and the buying group agreements. As required by IFRS 10, CEL does not meet the definitions, namely

- Power over the investee; - The Group is not an investor in Payless and does not control the board of Payless. The group does not have any equity holding in Payless and thus the loan provided by group cannot be interpreted as an investment in the books of the group (even with reference to conceptual framework definition of loan given to subsidiary). The operations of Payless are independent of company's influence, including fixing of selling price for products or identifying the purchases to be done for the company.

## Accounting policies

**1. Accounting policies (continued)**

**1.30 Significant judgements and sources of estimation uncertainty (continued)**

- Exposure, or rights, to variable returns from its involvement with the investee; - CEL does not have any right to vary the return the company can get from Payless for the amount loaned to the company. The rate of return is fixed as per the loan agreement and no amendment to the same has been affected. CEL is not entitled to any dividend or other form of returns being a lender to Payless. By CEL making Payless part of the buying group, CEL is entitled to returns in the form of rebates from suppliers for purchases done by Payless through CEL buying group. In this arrangement CEL does not have any exposure or right to variable return, considering that all purchases are done by the operations team of Payless. Payless operations team is not restricted to buy only through the buying group, and their total purchases for the year shows that they were buying from outside the group as well. Thus, CEL did not have any exposure to amend the returns to its favour. Again, CEL did not act in this case as in investor and the buying group arrangement was a pure trade transaction to facilitate better operations for Payless group.
- The ability to use its power over the investee to affect the amount of the investor's returns – As part of the agreement, CEL was entitled to support Payless by handling their accounting and finance function. As management we see this as a service provided and also to protect the interest of the company in recovering the loan provided.

## Notes to the Consolidated and Separate Financial Statements

**2. Changes in accounting policies**

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

**Application of IFRS 9 Financial Instruments**

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

**Classification and measurement of financial assets**

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 01 July 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 01 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 01 July 2018. Comparatives in relation to instruments that have not been derecognised as at 01 July 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

The Group reviewed and assessed its existing financial assets as at 01 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards to their classification and measurement:

**Impairment of financial assets**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, and lease receivables in certain circumstances.

**Classification and measurement of financial liabilities**

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

## Notes to the Consolidated and Separate Financial Statements

**2. Changes in accounting policies (continued)**

**Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS9**

The following table presents a summary of the financial assets as at 01 July 2018. The table reconciles the movement of financial assets from their IAS 39 measurement categories and into their new IFRS 9 measurement categories.

**Group**

| | Previous measurement | New measurement category: IFRS 9 | | | |
|---|---|---|---|---|---|
| | IAS 39 | FVPL* - mandatory | Amortised cost | Re-measurement changes - Adjustment to equity | Change attributable to: |
| **Previously Loans and receivables:** | | | | | |
| Investment in shares | 3 | 3 | - | - | No change |
| Advances and deposits | 80 830 | - | 80 830 | - | No change |
| Trade and other receivables (excluding vat) | 177 623 | - | 177 623 | - | Change in measurement attribute |
| Amount due from related entities | 22 425 | - | 22 425 | - | No change |
| Cash and cash equivalents | 90 165 | - | 90 165 | - | No change |
| | **371 046** | **3** | **371 043** | **-** | |

**Company**

| | Previous measurement | New measurement category: IFRS 9 | | |
|---|---|---|---|---|
| | IAS 39 | Amortised cost | Re-measurement changes - Adjustment to equity | Change attributable to: |
| **Previously Loans and receivables:** | | | | |
| Amount due from related entities | 331 256 | 331 256 | - | No change |
| Cash and cash equivalents | 477 | 477 | - | No change |
| | **331 733** | **331 733** | **-** | |

*FVPL - Fair value through profit or loss

## Notes to the Consolidated and Separate Financial Statements

**2. Changes in accounting policies (continued)**

**Reconciliation of the reclassifications and remeasurements of financial liabilities as a result of adopting IFRS9**

The following table presents a summary of the financial liabilities as at 01 July 2018. The table reconciles the movement of financial liabilities from their IAS 39 measurement categories and into their new IFRS 9 measurement categories.

**Group**

| | Previous measurement | New measurement category: IFRS 9 | | |
|---|---|---|---|---|
| | IAS 39 | Amortised cost | Re-measurement changes - Retained earnings | Change attributable to: |
| **Previously Amortised cost:** | | | | |
| Trade and other payables (excluding VAT, payroll accruals and advances from customer) | 1 312 289 | 1 312 289 | - | No change |
| Borrowings | 815 485 | 815 485 | - | No change |
| Amounts due to related entities | 42 675 | 42 675 | - | No change |
| Bank overdraft | 106 448 | 106 448 | - | No change |
| | **2 276 897** | **2 276 897** | **-** | |

**Company**

| | Previous measurement | New measurement category: IFRS 9 | | |
|---|---|---|---|---|
| | IAS 39 | Amortised cost | Re-measurement changes - Retained earnings | Change attributable to: |
| **Previously Amortised cost:** | | | | |
| Trade and other payables (excluding VAT, payroll accruals and advances from customer) | 202 | 202 | - | No change |
| Amounts due to related entities | 13 678 | 13 678 | - | No change |
| | **13 880** | **13 880** | **-** | |

**Application of IFRS 15 Revenue from contracts with customers**

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRSs. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group financial statements are described below. Refer to the revenue accounting policy for additional details.

## Notes to the Consolidated and Separate Financial Statements

**2. Changes in accounting policies (continued)**

Review of contracts in each of these business areas were carried out to gain comfort that none of those contracts contained non-standard terms or clauses which could invalidate the use of practical expedient for revenue recognition or that the effect of any such terms or clauses had no material impact on its use. No exceptions were noted to invalidate the application.

Based on the contract reviews, we continue to believe that the practical expedient of paragraph IFRS 15.63 (to ignore the financing component if the transfer of goods and related payments are no more than 12 months apart) can be applied to the company's sale of goods such that there is expected to be no change in the basis for/timing of revenue recognition, and hence no restatement of revenue, for these businesses on transition to IFRS 15.

The existing revenue recognition policies are consistent and compliant with IFRS 15. There no impact on presentation of revenues reported.

**General impact of application of IFRS 16 Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidelines including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of application of IFRS 16 for the Group will be 1 July 2019.

The Group will apply IFRS 16 retrospectively in accordance with IFRS 16:C5 (b) with the cumulative effect being recognised at the date of initial application.

**Impact of the new definition of a lease**
The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the company.

**Impact on Lessee Accounting**
Operating leases

IFRS 16 will change how the Group will accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

## Notes to the Consolidated and Separate Financial Statements

**2. Changes in accounting policies (continued)**

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirements to recognize a provision for onerous lease contract.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture) under P 50 000, the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 30 June 2019, the Group has operating lease commitments of P135 413 million for leases other than short-term leases and leases of low-value assets.

Hence the Group will recognise a right-of-use asset of P833.21 million and a corresponding lease liability of P833.21 million in respect of these leases. The impact on profit or loss is to decrease rental expenses by P197.74 million, to increase depreciation by P176.42 million and to increase interest expense by P70.91 million for the year ended 30 June 2019.

## Notes to the Consolidated and Separate Financial Statements

### 3. New Standards and Interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Impact: |
|---|---|---|
| • IFRS 9 Financial Instruments | 01 January 2018 | The impact of the standard is set out in note 2 Changes in accounting policy. |
| • IFRS 15 Revenue from Contracts with Customers | 01 January 2018 | The impact of the standard is set out in note 2 Changes in accounting policy. |
| • Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers | 01 January 2018 | The impact of the standard is not material. |

#### 3.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2019 or later periods.

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • Definition of a business - Amendments to IFRS 3 | 01 January 2020 | Unlikely there will be a material impact |
| • Presentation of Financial Statements: Disclosure initiative | 01 January 2020 | Unlikely there will be a material impact |
| • Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative | 01 January 2020 | Unlikely there will be a material impact |
| • Prepayment Features with Negative Compensation - Amendment to IFRS 9 | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | Unlikely there will be a material impact |
| • Uncertainty over Income Tax Treatments | 01 January 2019 | Unlikely there will be a material impact |
| • IFRS 16 Leases | 01 January 2019 | Expected impact is disclosed in note 2 |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 4. Revenue

| | | | | |
|---|---|---|---|---|
| **Revenue from contracts with customers** | | | | |
| Sale of goods | 9 620 187 | 10 791 295 | - | - |
| **Revenue other than from contracts with customers** | | | | |
| Dividend income | - | - | - | 25 876 |
| | **9 620 187** | **10 791 295** | **-** | **25 876** |

| | | | | |
|---|---|---|---|---|
| **Disaggregation of revenue from contracts with customers by country** | | | | |
| Botswana | 4 147 284 | 4 102 808 | - | - |
| Namibia | 119 701 | 45 223 | - | - |
| Kenya | 440 437 | 407 699 | - | - |
| Zambia | 583 516 | 502 714 | - | - |
| South Africa | 3 740 551 | 4 044 525 | - | - |
| Mozambique | 24 831 | 24 820 | - | - |
| Tanzania | 55 374 | 22 121 | - | - |
| Zimbabwe | 508 493 | 1 641 385 | - | - |
| | **9 620 187** | **10 791 295** | **-** | **-** |

### 5. Cost of sales

| | | | | |
|---|---|---|---|---|
| Sale of goods | 7 724 374 | 8 728 879 | - | - |

### 6. Other operating income

| | | | | |
|---|---|---|---|---|
| Commissions received on financial services | 28 955 | 27 586 | - | - |
| Rental income (including ATMs) | 9 398 | 8 292 | - | - |
| Employee tax incentive income | 14 690 | 9 224 | - | - |
| Transportation income | 18 860 | 2 307 | - | - |
| Miscellaneous income | 10 214 | 4 710 | - | - |
| | **82 117** | **52 119** | **-** | **-** |

### 7. Other operating gains (losses)

| | | | | |
|---|---|---|---|---|
| **(Losses)/gains on disposals** | | | | |
| Property, plant and equipment | (855) | 3 044 | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 8. Operating loss

Operating loss for the year is stated after charging (crediting) the following, amongst others:

| | | | | |
|---|---|---|---|---|
| **Auditor's remuneration - external** | | | | |
| Audit fees | - | 3 238 | - | - |
| Audit fees - prior year | 13 454 | 3 640 | - | - |
| Other | - | 27 | - | - |
| | **13 454** | **6 905** | **-** | **-** |
| Consulting and professional service fees | 22 193 | 18 268 | 465 | 27 |
| Legal and forensic fees | 14 393 | - | - | - |
| | **36 586** | **18 268** | **465** | **27** |
| **Employee costs** | | | | |
| Salaries, wages, bonuses and other benefits | 771 693 | 770 417 | 49 | - |
| Defined contribution expense | 22 595 | 18 129 | - | - |
| **Total employee costs** | **794 288** | **788 546** | **49** | **-** |
| **Leases** | | | | |
| **Operating lease charges** | | | | |
| Premises | 404 493 | 375 955 | - | - |
| **Depreciation, write-off and amortisation** | | | | |
| Depreciation of property, plant and equipment | 219 375 | 207 579 | - | - |
| Write-off of goodwill | 2 368 | - | - | - |
| Amortisation of intangible assets | 4 456 | - | - | - |
| | **226 199** | **207 579** | **-** | **-** |
| **Impairment losses** | | | | |
| Property, plant and equipment (Refer to note 13) | 14 138 | 77 143 | - | - |
| Impairment of goodwill (Refer to note 14) | 16 516 | 125 696 | - | - |
| Impairment of intangible asset Oracle project (Refer to note 14) | 13 759 | - | - | - |
| Impairment of advance to suppliers | 4 366 | - | - | - |
| Investment in subsidiaries (Refer to note 15) | - | - | 178 889 | 313 496 |
| Impairment of amounts due from related parties (South Africa/Nanavac Investment note 19) | - | - | 47 645 | 17 879 |
| Reversal of intercompany loan | (3 676) | - | - | - |
| Payless Supermarkets (Pty) Ltd (included in trade receivables note 22) | 17 730 | 103 109 | - | - |
| Movement in expected credit loss allowance (Refer to note 22) | (9 834) | - | - | - |
| Impairment of trade and other receivables (Refer to note 22) | - | 28 721 | - | - |
| | **52 999** | **334 669** | **226 534** | **331 375** |
| **Donations** | | | | |
| Donations paid | 4 452 | 3 036 | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**8. Operating loss (continued)**

**Expenses by nature**

The total cost of sales, selling and distribution expenses, administrative expenses and other operating expenses are analysed by nature as follows:

| | | | | |
|---|---|---|---|---|
| **Cost of sales** | | | | |
| Cost of inventories sold | 7 724 374 | 8 728 879 | - | - |
| **Other expenses** | | | | |
| Employee costs | 794 288 | 788 546 | 49 | - |
| Operating lease charges | 404 493 | 375 955 | - | - |
| Depreciation, amortisation and impairment | 279 198 | 542 248 | 226 534 | 331 375 |
| Other expenses | 142 755 | 180 450 | 754 | 431 |
| **Administrative Expenses** | | | | |
| Bank charges | 67 794 | 71 941 | 3 | 52 |
| Computer expenses | 37 641 | 32 691 | - | - |
| Electricity charges | 180 108 | 174 585 | - | - |
| Insurance, license and permits | 30 049 | 33 049 | - | - |
| Motor vehicle expenses | 42 503 | 36 834 | - | - |
| Professional charges | 36 586 | 18 268 | - | - |
| Security expenses | 71 435 | 72 568 | - | - |
| Repairs and maintenance | 89 154 | 89 670 | - | - |
| Effects of hyper-inflation accounting on administrative expenses | 25 977 | - | - | - |
| **Selling and distribution expenses** | | | | |
| Advertising and sales promotion | 46 241 | (7 289) | - | - |
| Foreign exchange differences | 51 782 | 24 284 | - | - |
| | **10 024 378** | **11 162 679** | **227 340** | **331 858** |

**9. Investment income**

| | | | | |
|---|---|---|---|---|
| **Interest income** | | | | |
| **From investments in financial assets:** | | | | |
| Bank and other cash | 1 187 | 3 543 | - | - |

**10. Finance costs**

| | | | | |
|---|---|---|---|---|
| Bank overdraft and borrowings | 80 110 | 62 879 | - | - |
| Interest paid on accounts payable | - | 15 823 | - | - |
| **Total finance costs** | **80 110** | **78 702** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 11. Taxation

**Major components of the tax expense**

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Income tax - current period | 23 490 | 19 077 | - | - |
| Income tax - recognised in current tax for prior periods | 470 | (1 435) | - | - |
| | **23 960** | **17 642** | **-** | **-** |
| **Deferred** | | | | |
| Originating and reversing temporary differences | 2 880 | 35 487 | - | - |
| | **26 840** | **53 129** | **-** | **-** |

**Reconciliation of the tax expense**

Reconciliation between accounting profit and tax expense.

| | | | | |
|---|---|---|---|---|
| Accounting loss | (401 852) | (391 380) | (227 340) | (305 982) |
| Tax at the applicable tax rate of 22% (2018: 22%) | (88 407) | (86 104) | (50 015) | (67 316) |
| **Tax effect of adjustments on taxable income** | | | | |
| Unrecognised deferred tax asset | 114 534 | - | - | - |
| Prior year under( over) provision of current tax | 470 | (1 435) | - | - |
| Prior year under(over) provision of deferred tax | (2 042) | - | - | - |
| Tax losses disregarded | - | 136 543 | - | - |
| Disallowed expenses | 1 878 | 24 546 | 50 015 | 72 903 |
| Exempt income | - | - | - | (5 587) |
| Effects of different tax rate | 407 | (20 421) | - | - |
| | **26 840** | **53 129** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 12. Earnings and dividend per share

**Basic earnings per share and diluted earnings per share**

| | | | | |
|---|---|---|---|---|
| **Diluted loss per share** | | | | |
| Basic loss per share (thebe) | (30.20) | (32.07) | - | - |
| Diluted loss per share (thebe) | (30.20) | (32.07) | - | - |

The Group has assessed the impact of the dilution of the shares in the Trust to be immaterial.

| | | | | |
|---|---|---|---|---|
| **The calculation of basic and diluted earnings per share is based on:** | | | | |
| Profit for the year attributable to owners of the company (Pula Thousand) | (393 662) | (418 075) | - | - |

| | | | | |
|---|---|---|---|---|
| **The weighted average number of ordinary shares in issue during the year to the nearest thousand** | | | | |
| **Weighted average number of shares:** | | | | |
| Issued ordinary share at 1 July | 1 303 628 | 1 303 628 | - | - |
| **Weighted average number of ordinary shares at 30 June** | **1 303 628** | **1 303 628** | **-** | **-** |

| | | | | |
|---|---|---|---|---|
| **Shares to the nearest thousand** | | | | |
| Basic | 1 303 628 | 1 303 628 | - | - |
| Diluted | 1 303 628 | 1 303 628 | - | - |

**Headline earnings and diluted headline earnings per share**

The calculation of headline earnings and diluted headline earnings per share is based on the weighted average number of ordinary shares in issue during the year.

| | | | | |
|---|---|---|---|---|
| Basic headline loss per share (thebe) | (25.87) | (6.84) | - | - |
| Diluted headline loss per share (thebe) | (25.87) | (6.84) | - | - |

| | | | | |
|---|---|---|---|---|
| **Reconciliation between earnings and headline earnings** | | | | |
| Loss for the year attributable to owners of the company (Pula in thousands) | (393 662) | (418 075) | - | - |
| **Re-measurement** | | | | |
| Loss/(profit) on disposal of plant and equipment | 855 | (3 044) | - | 2 374 |
| Impairment losses | 66 509 | 334 669 | - | - |
| Tax effect on re-measurement* | (10 998) | (2 782) | - | - |
| **Headline earnings** | **(337 296)** | **(89 232)** | **-** | **2 374** |

*Tax effect on re-measurement

**Dividends per share**

| | | | | |
|---|---|---|---|---|
| Dividend per share | - | 2.31 | - | - |
| Dividend declared and paid | - | 30 129 | - | - |
| Ordinary shares eligible for dividend | 1 303 628 | 1 303 628 | - | - |

# Notes to the Consolidated and Separate Financial Statements

Figures in Pula thousand

**13. Property, plant and equipment**

| | Buildings | Plant and machinery | Furniture and fixtures | Motor vehicles | Office equipment | IT equipment | Aircraft | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance** | | | | | | | | | |
| Cost | 81 130 | 1 084 400 | 358 169 | 392 397 | 7 691 | 201 767 | 81 741 | - | 2 207 295 |
| Accumulated depreciation and impairment | (27 124) | (445 160) | (148 841) | (170 819) | (4 391) | (119 330) | (16 002) | - | (931 667) |
| **Net book value at 01 July 2018** | **54 006** | **639 240** | **209 328** | **221 578** | **3 300** | **82 437** | **65 739** | **-** | **1 275 628** |
| Additions | 7 356 | 46 084 | 58 080 | 10 100 | 1 516 | 19 401 | - | 8 961 | 151 498 |
| Disposals and scrappings | (386) | (2 173) | (568) | (12 534) | - | (490) | (81 400) | - | (97 551) |
| Disposals and scrappings - accumulated depreciation and impairment | 386 | 835 | 208 | 9 112 | - | 257 | 15 397 | - | 26 195 |
| Transfers from investments in new projects (note 17) | - | 46 599 | - | - | - | - | - | - | 46 599 |
| Reclassifications | (13 267) | (65 631) | (5 593) | (25 380) | 59 489 | 6 010 | 44 372 | - | - |
| Foreign exchange movements | 2 317 | (73 050) | (22 166) | (9 578) | - | (10 359) | - | - | (112 836) |
| Depreciation | (4 137) | (92 573) | (31 603) | (43 775) | (10 551) | (31 012) | (5 724) | - | (219 375) |
| Impairment loss | (7 801) | (6 337) | - | - | - | - | - | - | (14 138) |
| **Net book value at 30 June 2019** | **38 474** | **492 994** | **207 686** | **149 523** | **53 754** | **66 244** | **38 384** | **8 961** | **1 056 020** |
| **Made up as follows:** | | | | | | | | | |
| Cost | 68 347 | 989 419 | 382 464 | 325 570 | 104 986 | 207 132 | 58 412 | 8 961 | 2 145 291 |
| Accumulated depreciation and impairment | (29 873) | (496 425) | (174 778) | (176 047) | (51 232) | (140 888) | (20 028) | - | (1 089 271) |
| | **38 474** | **492 994** | **207 686** | **149 523** | **53 754** | **66 244** | **38 384** | **8 961** | **1 056 020** |

Figures in Pula thousand

**13. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - Group - 2018**

| | Buildings | Plant and machinery | Furniture and fixtures | Motor vehicles | Office equipment | IT equipment | Aircraft | Total |
|---|---|---|---|---|---|---|---|---|
| **Opening balance** | | | | | | | | |
| Cost | 67 654 | 947 194 | 269 642 | 340 664 | 14 721 | 153 669 | 81 741 | 1 875 285 |
| Accumulated depreciation and impairment | (14 296) | (360 686) | (112 472) | (127 854) | (3 436) | (86 749) | (12 148) | (717 641) |
| **Net book value at 01 July 2017** | **53 358** | **586 508** | **157 170** | **212 810** | **11 285** | **66 920** | **69 593** | **1 157 644** |
| Additions | 13 136 | 182 076 | 78 252 | 101 909 | 60 | 54 108 | - | 429 541 |
| Disposals and scrappings | - | (1 645) | (108) | (36 811) | - | (79) | - | (38 643) |
| Disposals and scrappings - accumulated depreciation and impairment | - | 384 | 31 | 15 137 | - | 8 | - | 15 560 |
| Transfers from investments in new projects (note 17) | - | 7 171 | 4 781 | - | - | - | - | 11 952 |
| Foreign exchange movements | 906 | (6 494) | 12 745 | (12 624) | (7 090) | (3 147) | - | (15 704) |
| Depreciation | (4 361) | (79 560) | (34 079) | (55 398) | (955) | (29 372) | (3 854) | (207 579) |
| Impairment loss | (9 033) | (49 200) | (9 464) | (3 445) | - | (6 001) | - | (77 143) |
| **Net book value at 30 June 2017 (Restated)** | **54 006** | **639 240** | **209 328** | **221 578** | **3 300** | **82 437** | **65 739** | **1 275 628** |
| **Made up as follows:** | | | | | | | | |
| Cost | 81 130 | 1 084 400 | 358 169 | 392 397 | 7 691 | 201 767 | 81 741 | 2 207 295 |
| Accumulated depreciation and impairment | (27 124) | (445 160) | (148 841) | (170 819) | (4 391) | (119 330) | (16 002) | (931 667) |
| | **54 006** | **639 240** | **209 328** | **221 578** | **3 300** | **82 437** | **65 739** | **1 275 628** |

## Notes to the Consolidated and Separate Financial Statements

**13. Property, plant and equipment (continued)**

**Property, plant and equipment encumbered as security**

Movable assets with a net book value of P 75 017 183 limited to P27 000 000 are encumbered under an overdraft facility with Absa Bank of Botswana as disclosed in note 24.

Lease liabilities are secured over motor vehicles and aircraft with a net book value of P 188 348 104 as disclosed in note 31.

Immovable assets with a net book value of P 13 416 924 are encumbered under a term facility with Absa Bank of Mozambique as disclosed in note 31.

**Impairment and reversal of impairment**

In the current year, impairment indicators were identified relating to buildings and plant and machinery. Included in the impairment amount of buildings P7 800 982 is an amount of P 3 884 098 which relates to building that caught fire in Zimbabwe in January 2019.

Difficult market conditions in Mozambique resulted in closure of the operation. As a result, the buildings and plant and equipment was tested for impairment by comparing the carrying amount to its recoverable amount. As a result, an impairment charge of P 14 138 094 (2018: P 77 143 016) was recorded in other operating expenses in profit or loss for the year. The recoverable amount of the land and buildings and plant and machinery in Mozambique was its fair value less costs of disposal.

## Notes to the Consolidated and Separate Financial Statements

### 14. Goodwill and intangible asset

| | |
|---|---|
| Intangible asset | - |

**Reconciliation of goodwill and intangible assets - Group - 2019**

| | Goodwill | Software | Carrying amount |
|---|---|---|---|
| Cost | 729 581 | 2 934 | 732 515 |
| Accumulated amortisation | (746) | (2 934) | (3 680) |
| Accumulated impairment losses | (549 852) | - | (549 852) |
| Carrying amount at 1 July 2018 | 178 983 | - | 178 983 |
| Transfers from investments in new projects (note 17) | - | 11 139 | 11 139 |
| Amortisation | - | (4 456) | (4 456) |
| Write-off | (2 368) | - | (2 368) |
| Impairments | (16 516) | - | (16 516) |
| Effects of hyper-inflation | 35 682 | - | 35 682 |
| Effect of movements in exchange rates | (116 050) | - | (116 050) |
| | **79 731** | **6 683** | **86 414** |

| **Comprising of:** | Goodwill | Software | Carrying amount |
|---|---|---|---|
| Cost | 729 581 | 27 832 | 757 413 |
| Accumulated amortisation | (3 114) | (7 390) | (10 504) |
| Accumulated impairment losses | (646 736) | (13 759) | (660 495) |
| | **79 731** | **6 683** | **86 414** |

**Reconciliation of goodwill and intangible assets - Group - 2018**

| | Goodwill | Software | Carrying amount |
|---|---|---|---|
| Opening balance as previously reported | 647 728 | - | 647 728 |
| Prior period restatement | (424 256) | - | (424 256) |
| Carrying amount at 1 July 2017 | 223 472 | - | 223 472 |
| Additions | 94 590 | - | 94 590 |
| Impairments | (125 696) | - | (125 696) |
| Effect of movements in exchange rates | (13 383) | - | (13 383) |
| | **178 983** | **-** | **178 983** |

| **Comprising of:** | Goodwill | Software | Carrying amount |
|---|---|---|---|
| Cost | 729 581 | 2 934 | 732 515 |
| Accumulated amortisation | (746) | (2 934) | (3 680) |
| Accumulated impairment losses | (549 852) | - | (549 852) |
| | **178 983** | **-** | **178 983** |

Impairment indicators were identified relating to goodwill. Difficult market conditions as well as the cost structure of the stores in Kenya did not allow the company to operate profitably. As a result, the Kenya was tested for impairment by comparing the carrying amount to its recoverable amount. As a result, an impairment charge of P 16 516 (2018: P 125 696) was recorded in other operating expenses in profit or loss for the year.

## Notes to the Consolidated and Separate Financial Statements

**14. Goodwill and intangible asset (continued)**

The valuation of goodwill at reporting date was determined by comparing the value in use of the cash generating units (“CGUs”), that the goodwill is allocated to, the carrying amounts of the assets and liabilities within the CGUs. The value in use is determined by comparing the present value of estimated incremental future cash flows to the carrying amount. This was based on five-year cash flow projections based off the most recent budgets approved by management and extrapolations of cash flows. The growth rates incorporated in the projections do not exceed the average long-term growth rates for the market in which the CGU operates.

Impairment indicators were identified relating to goodwill, which include difficult market conditions as well as the cost structure of the stores in Kenya did not allow the company to operate profitably. As a result, the Kenya stores was tested for impairment by comparing the carrying amount to its recoverable amount. As a result, an impairment loss of P 16 516 (2018: P 125 696) was recorded in other operating expenses in profit or loss for the year.

| Goodwill asset is allocated to the CGUs (mainly individual stores) of the main operations as follows: | Group 2019 | Group 2018 | Company 2019 | Company 2018 |
|---|---|---|---|---|
| **Goodwill** | | | | |
| Choppies Supermarkets South Africa (Pty) Limited | 13 154 | 13 113 | - | - |
| Nanavac Investments (Pvt) Limited (Zimbabwe) | 56 955 | 137 424 | - | - |
| Mafila Holding CGU (subsidiary of Choppies Distribution Centre (Pty) Ltd) | 3 271 | 3 271 | - | - |
| SupaSave and MegaSave CGU (subsidiary of Choppies Distribution Centre (Pty) Ltd) | 6 351 | 19 974 | - | - |
| Choppies Enterprises Kenya Limited | - | 5 001 | - | - |
| | **79 731** | **178 783** | **-** | **-** |

The following assumptions were applied in the evaluation of goodwill discount rate is 12.95%-14.95% (2018: 14%-22%).

| Average sales growth rate | Group 2019 % | Group 2018 % | Company 2019 | Company 2018 |
|---|---|---|---|---|
| In Botswana | 6 | 2 - 4 | - | - |
| In South Africa | 6 | 3.5 | - | - |
| In Zimbabwe | 6 | 8 | - | - |
| In Kenya | 10 | 10 | - | - |
| Terminal value growth rate | 3.6 - 6.04 | 7 - 6 | - | - |

| Five year average inflation rate' | Group 2019 | Group 2018 | Company 2019 | Company 2018 |
|---|---|---|---|---|
| In Botswana | 3.20 % | 3.90 % | - | - |
| In South Africa | 4.00 % | 5.70 % | - | - |
| In Zimbabwe | 50.20 % | 8.00 % | - | - |
| In Kenya | 4.30 % | 4.30 % | - | - |

| Five year gross profit margin | Group 2019 % | Group 2018 % | Company 2019 | Company 2018 |
|---|---|---|---|---|
| In Botswana | 23.5 | 15 | - | - |
| In South Africa | 19 | 14 | - | - |
| In Zimbabwe | 27.90 | 7 - 17 | - | - |
| In Kenya | 15 | 15 | - | - |

The value-in-use calculations and impairment reviews are sensitive to changes in key assumptions, particularly relating to discount rates and cash flow growth. A sensitivity analysis has been performed based on changes in key assumptions considered to be possible by management. The following key assumptions would need to change by the amounts as disclosed below, assuming all other assumptions remained constant, in order for the estimated recoverable amounts of the CGUs to equal their carrying amounts:

- an increase in the discount rate between 40% and 70% depending on the CGU;
- a decrease in terminal value growth rate between 100% and 130% depending on the CGU.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 15. Investment in subsidiaries

Choppies Enterprises Limited held the following interests in the stated capital of subsidiaries consolidated into these financial statements. The company has 13 (2018: 95) subsidiaries, 11 (2018: 86) of which are considered to be material to the Group.

- 8 (2018: 89) subsidiaries are wholly owned including Choppies Group Share Incentive Trust Scheme.
- The 5 subsidiaries are majority held.

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries.

**Amalgamation of Botswana Subsidiaries**

Effective on 1 July 2018, the operations of Choppies Distribution Centre (Proprietary) Limited were amalgamated with 83 subsidiaries of Choppies Enterprises Limited. All assets and liabilities of the 83 subsidiaries of Choppies Enterprises Limited were transferred to Choppies Distribution Centre (Proprietary) Limited.

**Choppies Group Share Incentive Trust Scheme**

Choppies Group share incentive trust scheme is termed as a subsidiary mainly due to the control exercised by the company over its management. The trust does not have any capital or equity fund which is owned by the company. Details of the movement of the trust is given in Note 26. The value mentioned towards the trust is the cost of shares transferred to the Trust for its management as per the provisions of trust deed.

**Company**

| | | | | |
|---|---|---|---|---|
| Investment in subsidiaries | - | - | 104 075 | 282 964 |
| **Reconciliation of investment in subsidiaries** | | | | |
| Opening balance at beginning of the year | - | - | 282 964 | 524 024 |
| Acquisitions during the year | - | - | - | 73 544 |
| Capital reduction | - | - | - | (4) |
| Share incentive trust reduction | - | - | - | (1 104) |
| Impairments during the year | - | - | (178 889) | (313 496) |
| | **-** | **-** | **104 075** | **282 964** |

| **In Pula** | **Country of incorporation** | **% Ownership 2019** | **Carrying value of investment 2019** | **% Ownership 2018** | **Carrying value of investment 2018** |
|---|---|---|---|---|---|
| Abbas Enterprises (Pty) Limited | Botswana | - % | - | 100 % | 3 000 |
| Accrete Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Amphora (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Asklite (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Atladis (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Beavers Investments (Pty) Limited | Botswana | - % | - | 100 % | 4 779 146 |
| Bell Garden (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Bestlite Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Best Strategy (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Bowerbird (Pty) Limited | Botswana | - % | - | 100 % | 2 364 913 |
| Catbird (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Chathley Enterprises (Pty) Limited | Botswana | - % | - | 100 % | 5 035 746 |
| Choppies Distribution Centre (Pty) Limited | Botswana | 100 % | 74 410 116 | 100 % | 770 933 |
| Choppies Logistics Proprietary Limited | South Africa | 100 % | 733 | 100 % | 733 |
| Choppies Supermarkets Namibia (Pty) Limited | Namibia | 100 % | 98 | 100 % | 98 |
| Choppies Supermarkets Tanzania Limited | Tanzania | 75 % | 12 904 576 | 75 % | 12 904 576 |
| Choppies Supermarkets Tanzania Limited-Impairment | | - | (12 904 576) | - | (12 904 576) |

## Notes to the Consolidated and Separate Financial Statements

**15. Investment in subsidiaries (continued)**

| | | | | | |
|---|---|---|---|---|---|
| Choppies Enterprises Kenya Limited | Kenya | 75 % | 178 878 293 | 75 % | 178 878 293 |
| Choppies Enterprises Kenya Limited-impairment | | - | (178 878 293) | - | - |
| Choppies Distribution Centre Kenya Limited | Kenya | 75 % | 10 716 | 75 % | 10 716 |
| Choppies Distribution Centre Kenya Limited-Impairment | | - | (10 716) | - | - |
| Choppies Group Share Incentive Trust Scheme | Botswana | 100 % | 29 615 835 | 100 % | 29 615 835 |
| Choppies Supermarket Mozambique Limitada | Mozambique | 90 % | 33 613 445 | 90 % | 33 613 445 |
| Choppies Supermarket Mozambique Limitada-impairment | | - | (33 613 445) | - | (33 613 445) |
| Choppies Supermarkets Limited (Zambia) | Zambia | 90 % | 47 158 | 90 % | 47 158 |
| Choppies Supermarkets SA (Pty) Limited | South Africa | 100 % | 266 977 421 | 100 % | 266 977 421 |
| Choppies Supermarkets SA (Pty) Limited-impairment | | - | (266 977 421) | - | (266 977 421) |
| Choppies Warehousing Services (Pty) Limited | South Africa | 100 % | 900 | 100 % | 900 |
| Crystal Shine (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Daisy Gardens (Pty) Limited | Botswana | - % | - | 100 % | 290 273 |
| Deluxe (Pty) Limited | Botswana | - % | - | 100 % | 5 778 525 |
| Dhalia (Pty) Limited | Botswana | - % | - | 100 % | 1 000 |
| Dostana Investments (Pty) Limited | Botswana | - % | - | 100 % | 1 000 |
| Dragon Gold (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Enchanted Oaks (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Flowting Ideas (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| F & A Enterprises (Pty) Limited | Botswana | - % | - | 100 % | 734 973 |
| Freshtake Holdings (Pty) Limited | Botswana | - % | - | 100 % | 4 033 916 |
| Ganga (Pty) Limited | Botswana | - % | - | 100 % | 1 000 |
| Genuine Passions (Pty) Limited | Botswana | - % | - | 100 % | 688 755 |
| Gliftwood (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Gobrand Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Golden Irish (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Godavari (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Good Track (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Gritnit (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Heaven Hill (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Heritic Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Highland Haven (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Himalayas (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Hoovernit (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Jarapino Ventures (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Jobfine Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Kaar Distributors & Marketing Services (Pty) Limited | Botswana | - % | - | 100 % | 2 170 082 |
| Kanye Friendly Grocer (Pty) Limited | Botswana | - % | - | 100 % | 439 264 |
| Karling Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Kings Rifle (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Leaf Motifs (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Lisboa Trading (Pty) Limited | Botswana | - % | - | 100 % | 3 017 120 |
| Macha Investments (Pty) Limited | Botswana | - % | - | 100 % | 2 489 757 |
| Mafila Holdings (Pty) Limited | Botswana | - % | - | 100 % | 150 000 |
| Maypearl (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Million Touch (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Monthe Vista (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Motopi Holdings (Pty) Limited | Botswana | - % | - | 100 % | 3 365 538 |
| Motopi Holdings SA (Pty) Limited | South Africa | 100 % | 100 | 100 % | 100 |
| Naivasha (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Nanavac Investments (Pvt) Limited** | Zimbabwe | 100 % | - | 49 % | - |
| Ndongolela Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| New Page (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Ollur Investments (Pty) Limited | Botswana | - % | - | 100 % | 2 005 193 |
| Ourluck Investment (Pty) Limited | Botswana | - % | - | 100 % | 425 020 |
| Path for Glory (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Pucko Investments (Pty) Limited | Botswana | - % | - | 100 % | 2 849 148 |

## Notes to the Consolidated and Separate Financial Statements

**15. Investment in subsidiaries (continued)**

| | | | | | |
|---|---|---|---|---|---|
| Pearland (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Right Time Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Rigil (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| S & F Enterprises (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Sarfrosh Holdings (Pty) Limited | Botswana | - % | - | 100 % | 16 331 720 |
| Shopper's Paradise (Pty) Limited | Botswana | - % | - | 100 % | 1 300 000 |
| Smart Buy Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Smoothsail Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Spin and Shine (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Summer Queen (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Sunrise Holdings (Pty) Limited | Botswana | - % | - | 100 % | 239 247 |
| SupaSave (Pty) Limited and MegaSave (Pty) Limited | Botswana | - % | - | 100 % | 14 332 511 |
| Taffeta Roses (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Tampatrail Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Tanglewood (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| To Domore Holdings (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Topshape Holdings (Pty) Limited | Botswana | - % | - | 100 % | 1 000 |
| Torinby Investments (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Roadtight (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Velocity (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Walrus (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Wayside Supermarket (Pty) Limited | Botswana | - % | - | 100 % | 805 936 |
| White Baite (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Wolf Lake (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| Well Done (Pty) Limited | Botswana | - % | - | 100 % | 100 |
| | | | **104 074 940** | | **282 963 949** |

**Changes in ownership interest which did not result in loss of control**

The following schedule represents the impact of changes in ownership interest of subsidiaries where control was not lost, on the equity attributable to owners of the Group:

| | | | | |
|---|---|---|---|---|
| Purchase of 51% shares in Nanavac Investments (Pvt) Limited from non-controlling interest, increasing ownership interest from 49% to 100% | (2 260) | - | - | - |

## Notes to the Consolidated and Separate Financial Statements

**15. Investment in subsidiaries (continued)**

**Subsidiaries with material non-controlling interests**

The following information is provided for subsidiaries with non-controlling interests. The summarised financial information is provided prior to intercompany eliminations.

| Subsidiary | Country of incorporation | % Ownership interest held by non-controlling interest 2019 | 2018 |
|---|---|---|---|
| Nanavac Investments (Pvt) Limited | Zimbabwe | - % | 51 % |
| Choppies Supermarkets Limited (Zambia) | Zambia | 10 % | 10 % |
| Choppies Enterprises Kenya Limited | Kenya | 25 % | 25 % |
| Choppies Distribution Centre Kenya Limited | Kenya | 25 % | 25 % |
| Choppies Supermarkets Tanzania Limited | Tanzania | 25 % | 25 % |
| Choppies Supermarket Mozambique LDA | Mozambique | 10 % | 10 % |

**Nanavac Investments (Pvt) Limited ("Nanavac") includes the Group's operations in Zimbabwe where legislation required an indigenous shareholding of at least 51% in all businesses. To comply with this requirement, the Group entered into an agreement with the minority shareholders of Nanavac (the Mphoko's) that gave the Group the power over the board, financial decision making and right to receive returns of Nanavac.

The Group also entered into an operational service agreement in September 2013 between Nanavac and Choppies Distribution Centre. However, as per the terms of these agreements, the approval of the Zimbabwe Investment Authority was to be obtained within 30 days of the agreements being signed. Since the approval was not obtained within the 30 day period, these agreements are deemed to have lapsed and hence are void.

Though the approval from the Zimbabwe Investment Authority was not obtained, the Group and the Mphoko's acted as if the agreements were valid, with the Group having power over the board, the right to receive dividends and other actions. The Group obtained legal opinion about its actions in terms of control which confirms that by the virtue of the parties' conduct over the last 6 years a tacit contract has arisen, which likely contains the same terms and conditions of the written agreements.

Based on such conclusions, the Group has included the results of Nanavac in accordance with IFRS 10 in preparation of the consolidated financial statements. The Group acquired the minority interest held by the Mphoko's in January 2019 for USD2.9 million. This also included a 100% subsidiary of Nanavac called Nestral System (Pvt) Limited which has been consolidated in Nanavac as at 30 June 2019.

Due to the absence of exchange control approval in Zimbabwe, the Group's ability to receive any dividends from Nanavac may be restricted.

# Notes to the Consolidated and Separate Financial Statements

**15. Investment in subsidiaries (continued)**

**2019**

| Summarised statement of financial position | Non-current assets | Current assets | Total assets | Non-current liabilities | Current liabilities | Total liabilities | Carrying amount of non-controlling interest |
|---|---|---|---|---|---|---|---|
| Choppies Supermarkets Limited (Zambia) | 95 380 | 72 089 | 167 469 | 2 786 | 251 656 | 254 442 | (8 702) |
| Choppies Enterprises Kenya Limited | 91 912 | 60 901 | 152 813 | 40 948 | 129 756 | 170 704 | (42 428) |
| Choppies Supermarkets Tanzania Limited | 8 456 | 4 924 | 13 380 | - | 10 360 | 10 360 | (2 613) |
| Choppies Supermarket Mozambique LDA | 17 602 | 6 093 | 23 695 | 8 341 | 16 091 | 24 432 | (3 435) |
| **Total** | 213 350 | 144 007 | 357 357 | 52 075 | 407 863 | 459 938 | (57 178) |
| **Non-controlling interest in all other subsidiaries** | | | | | | | 87 |
| | | | | | | | (57 091) |

The difference between the carrying amount of non-controlling interest and the non-controlling interest's proportionate share of the net assets of the subsidiary is represented by goodwill.

| Summarised statement of profit or loss and other comprehensive income | Revenue | Profit (loss) before tax | Tax expense | Profit (loss) | Other comprehensive income | Profit (loss) allocated to non-controlling interest |
|---|---|---|---|---|---|---|
| Choppies Supermarkets Limited (Zambia) | 583 516 | (50 974) | - | (50 974) | 14 120 | (5 097) |
| Choppies Enterprises Kenya Limited | 440 437 | (95 269) | (26) | (95 295) | 1 371 | (23 824) |
| Choppies Supermarkets Tanzania Limited | 55 374 | (14 049) | (4 171) | (18 220) | 65 | (4 555) |
| Choppies Supermarket Mozambique Limitada | 24 831 | (15 539) | - | (15 539) | (34) | (1 554) |
| **Total** | 1 104 158 | (175 831) | (4 197) | (180 028) | 15 522 | (35 030) |

**15. Investment in subsidiaries (continued)**

| Summarised statement of cash flows | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Net increase (decrease) in cash flow |
|---|---|---|---|---|
| Choppies Supermarkets Limited (Zambia) | 21 166 | (20 299) | (1 058) | 1 925 |
| Choppies Enterprises Kenya Limited | (10 371) | (38 000) | 74 242 | 25 870 |
| Choppies Supermarkets Tanzania Limited | 1 986 | (2 489) | - | (503) |
| Choppies Supermarket Mozambique LDA | 8 627 | (95) | (6 733) | 1 799 |
| **Total** | 21 408 | (60 883) | 66 451 | 29 091 |

**2018**

| Summarised statement of financial position | Non-current assets | Current assets | Total assets | Non-current liabilities | Current liabilities | Total liabilities | Carrying amount of non-controlling interest |
|---|---|---|---|---|---|---|---|
| Nanavac Investments (Pvt) Limited | 339 523 | 209 156 | 548 679 | 10 840 | 499 226 | 510 066 | (2 260) |
| Choppies Supermarkets Limited (Zambia) | 109 950 | 100 022 | 209 972 | 3 146 | 256 943 | 260 089 | (5 017) |
| Choppies Enterprises Kenya Limited | 76 304 | 85 596 | 161 900 | 5 934 | 91 964 | 97 898 | (18 947) |
| Choppies Distribution Centre Kenya Limited | 11 276 | 6 825 | 18 101 | 10 316 | 10 513 | 20 829 | 1 926 |
| Choppies Supermarket Mozambique LDA | 31 354 | 13 381 | 44 735 | 9 885 | 19 703 | 29 588 | (1 847) |
| **Total** | 568 407 | 414 980 | 983 387 | 40 121 | 878 349 | 918 470 | (26 145) |
| **Non-controlling interest in all other subsidiaries** | | | | | | | 87 |
| | | | | | | | (26 058) |

**15. Investment in subsidiaries (continued)**

| Summarised statement of profit or loss and other comprehensive income | Revenue | Profit before tax | Tax expense | Profit (loss) | Other comprehensive income | Total comprehensive income | Profit (loss) allocated to non-controlling interest |
|---|---|---|---|---|---|---|---|
| Nanavac Investments (Pvt) Limited | 1 641 385 | 19 103 | (4 289) | 14 814 | 1 110 | 14 065 | 907 |
| Choppies Supermarkets Limited (Zambia) | 502 714 | (31 354) | (6 335) | (37 689) | 631 | (37 057) | (3 769) |
| Choppies Enterprises Kenya Limited | 407 699 | (70 400) | (13 256) | (83 656) | 2 338 | (81 318) | (20 914) |
| Choppies Supermarkets Tanzania Limited | 22 121 | (7 994) | 2 064 | 5 930 | 337 | (5 603) | (1 485) |
| Choppies Supermarket Mozambique LDA | 24 820 | (11 732) | - | (11 732) | 144 | (11 588) | (1 173) |
| **Total** | 2 598 739 | (102 377) | (21 816) | (112 333) | 4 560 | (121 501) | (26 434) |

| Summarised statement of cash flows | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Net increase (decrease) in cash flow |
|---|---|---|---|---|
| Nanavac Investments (Pvt) Limited | 107 232 | (82 219) | (150) | 24 863 |
| Choppies Supermarkets Limited (Zambia) | 49 130 | (40 869) | - | 8 261 |
| Choppies Enterprises Kenya Limited | (43 173) | (51 332) | 75 426 | (19 079) |
| Choppies Supermarkets Tanzania Limited | (14 358) | (4 563) | 17 350 | (1 571) |
| Choppies Supermarket Mozambique LDA | 5 460 | (36) | (7 617) | (2 193) |
| **Total** | 104 291 | (179 019) | 85 009 | 10 281 |

## Notes to the Consolidated and Separate Financial Statements

**15. Investment in subsidiaries (continued)**

**Assessment of investments in subsidiaries for impairment**

The company assesses investments in subsidiaries for potential impairment when their impairment indicators have been identified. The company assesses the current and future financial performance of these subsidiaries, taking into account the company's business model (5 year projection). Future performance was assessed based on cash flow projections for Group's subsidiaries below and the following key assumptions:

| | Choppies Supermarkets Limited (Zambia) | Choppies Supermarkets Namibia (Pty) Limited | Choppies Distribution Centre (Pty) Limited |
|---|---|---|---|
| | 2019 | 2019 | 2019 |
| Revenue growth rates | 7.0% | 8.0% | 6.0% |
| Gross profit margins | 17.6% | 17.4% | 23.5% |
| Inflation rates | 9.0% | 4.0% | 3.2% |
| Terminal growth rates | 3.60% | 4.20% | 4.8% |

The company subsidiaries namely, Choppies Supermarkets Tanzania Limited, Choppies Supermarket Mozambique Limitada, Choppies Supermarkets SA (Pty) Limited were fully impaired in 2018 as future financial performance of these subsidiaries had an estimated recoverable amount from the value in use that was lower than the carrying amount of the company's investment.

Management reviewed the projections and operations of the region, namely Botswana, Namibia and Zambia and management is optimistic of the region and it is showing good growth and value to the Group. Management did not impair these investments in 2019 and 2018 due to the positive EBIDTA and increase in value.

**Assessment for impairment of investment in subsidiaries**

All investment in subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised if a subsidiary is not profitable/having negative cash flow in the next 5 years.

All investments in subsidiaries are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the investments' recoverable amount exceeds its carrying amount.

**Impairment of Choppies Enterprises Kenya Limited (Kenya)**

Choppies Enterprises Kenya Limited's cash flow was negatively impacted by adverse trading conducts. Management has decided to exit from the country during the financial year 2020 and hence impairment is provided for P 178 878 293.

**Impairment of Choppies Distribution Kenya Limited (Kenya)**

Choppies Distribution Kenya Limited is a non-operating entity and since the cash flow of Choppies Enterprises Kenya Limited (Kenya) was negatively impacted by adverse trading conducts. Management has decided to fully impair Choppies Distribution Kenya Limited and exit from the country during the financial year 2020 and hence impairment is provided for P 10 716.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 16. Deferred tax

The movement in deferred taxation is analysed as follows:

**Reconciliation of deferred tax asset / (liability)**

| | | | | |
|---|---|---|---|---|
| At beginning of year | (36 115) | 2 545 | - | - |
| Charge to the income statement | (2 880) | (35 487) | - | - |
| Foreign exchange differences including effects of hyper inflation | 6 733 | (3 173) | - | - |
| | **(32 262)** | **(36 115)** | **-** | **-** |

| | | | | |
|---|---|---|---|---|
| Accelerated capital allowances on items of property, plant and equipment | (47 741) | (107 591) | - | - |
| Deferred lease liabilities | 15 513 | 23 526 | - | - |
| Finance Leases | - | 4 001 | - | - |
| Advances and Deposits | (146) | (964) | - | - |
| Provisions | 56 | - | - | - |
| Tax losses carried forward | 1 516 | 44 578 | - | - |
| Unrealised Forex Loss | (1 460) | 335 | - | - |
| | **(32 262)** | **(36 115)** | **-** | **-** |

**Deferred tax asset not recognised on amalgamation**

In line with the income tax laws of Botswana, tax losses cannot be carried forward on amalgamation. On amalgamation tax losses for Floating Ideas (Pty) Limited amounting to P 80 414 (P 0.804 million or deferred tax asset amount of P 17 691) was not considered on amalgamation.

### 17. Investments in new projects

These amounts relate to capital expenditure incurred with regard to Oracle software and new stores to be opened in the following financial year. The amounts are non-current in nature and will be transferred to intangible assets and plant and equipment when the store opens.

**Investments in new projects is reconciled as follows:**

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | 107 392 | 45 633 | - | - |
| Amounts reclassified as additions to property, plant and equipment during the year (note 13) | (46 599) | (11 953) | - | - |
| Capital advanced during the year | 39 542 | 73 712 | - | - |
| Amounts reclassified to intangible assets (note 14) | (11 139) | - | - | - |
| Amounts reclassified as expenses | (1 775) | - | - | - |
| Effects of exchange rates | (45 807) | - | - | - |
| Impairment | (13 759) | - | - | - |
| Transfer from other receivables | 82 | - | - | - |
| Transfer to advance to suppliers | (919) | - | - | - |
| | **27 018** | **107 392** | **-** | **-** |

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. An impairment loss of P 13 759 (2018: Nil) was recognised for Oracle software point of sale project that was going to be used to integrate the financial general ledger module and point of sale software for all stores. The carrying amount of the asset is the advance deposit towards the project. Management assessed its value in use as nil, since the project is on hold till the time the finance module is integrated across all the regions and therefore the amount is fully impaired.

# Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

## 18. Amounts due to (from) related entities

| | | | | |
|---|---|---|---|---|
| Amounts due from related entities - subsidiaries | - | - | 334 937 | 349 135 |
| Amounts due from related entities - other related parties | 14 956 | 22 425 | - | - |
| | 14 956 | 22 425 | 334 937 | 349 135 |
| Impairment of amounts due from parties (South Africa/Nanavac Investments) | - | - | (65 524) | (17 879) |
| | **14 956** | **22 425** | **269 413** | **331 256** |

Transactions with related entities are carried out on mutually agreed terms and conditions in the normal course of business on an arm's length basis. Refer to note 37 for the details of related party balances and transactions.

An impairment loss of P 47 644 608 (2018: 17 879 145) was recognised for amounts due from related parties as a result of management assessment of Choppies Supermarket SA (Pty) Ltd's inability to repay the amounts advanced in the near future.

Apart from the impairment mentioned in the preceding paragraph no significant credit risk is associated with amounts due from related entities.

All amounts are short-term. The carrying values of amounts due from related entities are considered to be a reasonable approximation of fair value.

**Exposure to credit risk**

Amounts due from related entities inherently expose the Group to credit risk, being the risk that the company will incur financial loss if counterparties fail to make payments as they fall due.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for its amounts due from related entities . This is because the amounts due from related entities are expected to be repaid within the agreed time (which is normally 30 to 45 days). The amounts due from related entities arise from normal trading activities.

A loss allowance is recognised for all amounts due from related entities, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. Amounts due from related entities are written off when there is no reasonable expectation of recovery, for example, when a related entity is placed or has been placed under liquidation. Amounts due from related entities which have been written off are not subject to enforcement activities.

The group measures the loss allowance for amounts due from related parties by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on amounts due from related parties is determined as the lifetime expected credit losses on amounts due from related parties. These lifetime expected credit losses are estimated using a provision matrix. The provision matrix has been developed by making use of past default experience of amounts due from related parties but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The lifetime ECL is expected to be immaterial or almost nil based on past experience as a result of low risk of default and no amounts are past due. Amounts due from related entities are written off when there is no reasonable expectation of recovery, for example, when a related entity has been placed under liquidation.

| | | | | |
|---|---|---|---|---|
| Amounts due to related entities | (118 002) | (42 675) | - | (13 678) |

These balances are trade related, unsecured, interest free and are repayable under normal trading terms. Refer to note 37 for the details of related party balances and transactions.

All amounts are short-term. The carrying values of amounts due to related entities are considered to be a reasonable approximation of fair value.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 18. Amounts due to (from) related entities (continued)

| | | | | |
|---|---|---|---|---|
| Current assets | 14 956 | 22 425 | 269 413 | 331 256 |
| Current liabilities | (118 002) | (42 675) | - | (13 678) |
| | **(103 046)** | **(20 250)** | **269 413** | **317 578** |

### 19. Inventories

| | | | | |
|---|---|---|---|---|
| Merchandise | 616 343 | 971 833 | - | - |
| Goods in transit | 4 044 | 18 885 | - | - |
| | 620 387 | 990 718 | - | - |
| Provision for inventory | (46 318) | (34 214) | - | - |
| | **574 069** | **956 504** | **-** | **-** |
| Cost of inventories recognised as an expense during the year | 7 721 080 | 8 710 407 | - | - |

### 20. Other financial assets

| | | | | |
|---|---|---|---|---|
| **Mandatorily at fair value through profit or loss:** | | | | |
| Investment in listed shares | 3 | 3 | - | - |

The investment consists of 1 000 shares in First National Bank Botswana Limited. The quoted price at 30 June 2019 was P2.75 (2018: P2.73 per share).

| | | | | |
|---|---|---|---|---|
| **Held to maturity** | | | | |
| Bank balances - call deposits | - | 2 187 | - | - |
| **Total other financial assets** | **3** | **2 190** | **-** | **-** |
| **Current assets** | | | | |
| Held to maturity | - | 2 187 | - | - |

### 21. Advances and deposits

| | | | | |
|---|---|---|---|---|
| Salary advances | 1 230 | 3 677 | - | - |
| Rent advances | 2 911 | 3 166 | - | - |
| Prepaid expenses | 7 282 | 1 998 | - | - |
| Rent deposits | 18 324 | 15 144 | - | - |
| Other deposits | 1 316 | 3 629 | - | - |
| Electricity deposits | 4 611 | 5 113 | - | - |
| Telephone deposits | 78 | 92 | - | - |
| Advance to suppliers | 42 888 | 41 693 | - | - |
| Other advances | 3 861 | 6 317 | - | - |
| | **82 501** | **80 829** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 22. Trade and other receivables

| | | | | |
|---|---|---|---|---|
| Trade receivables | 169 936 | 188 468 | - | - |
| Expected credit loss allowance/Provision for impairment | (166 621) | (119 176) | - | - |
| | 3 315 | 69 292 | - | - |
| Other receivable | 84 013 | 108 331 | - | - |
| Value added tax | 9 121 | 24 953 | - | - |
| | **96 449** | **202 576** | **-** | **-** |

**Credit risk**

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due.

Trade receivables arise from retail sales. Retail trade is located in Botswana, Kenya, Namibia,Tanzania, Zambia and Zimbabwe. Management therefore assess and monitor credit risk internally along these risk concentrations.

The Company is exposed to credit risk if counterparties fail to make payments as they fall due.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all short-term receivables. To measure the expected credit losses, short-term receivables have been grouped based on shared credit risk characteristics and the days past due. The company uses an allowance matrix to measure the expected credit loss (ECL) of trade receivables from various customer groups. Loss rates are calculated using a roll rate method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on type of clients and products.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

**Credit risk on other receivables**
Other receivables comprise of rebates receivables from suppliers. These rebates receivable are recovered from supplier payments and Group does not expect any credit loss. Rebates receivable are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**22. Trade and other receivables (continued)**

The Group's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

| Company | 2019 | 2019 |
|---|---|---|
| **Expected credit loss rate:** | Estimated gross carrying amount at default | Loss allowance (Lifetime expected credit loss) |
| Not past due: 4.9% | 568 | (216) |
| Past due 1 - 30 days: 6.5% | 1 726 | (113) |
| Past due 31 -60 days: 17.2% | 1 501 | (258) |
| Past due 61 -90 days: 35.9% | 167 | (66) |
| More than 91 days past due: 100.0% | 15 655 | (15 649) |
| Specific debtors South Africa | 29 464 | (29 464) |
| Specific debtors Payless | 120 855 | (120 855) |
| **Total** | **169 936** | **(166 621)** |

**Reconciliation of loss allowances**

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade and other receivables:

| | | | | |
|---|---|---|---|---|
| **Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement** | 119 176 | - | - | - |
| Adjustments upon application of IFRS 9 | - | - | - | - |
| **Opening balance in accordance with IFRS 9** | **119 176** | **-** | **-** | **-** |
| Specific provision on Payless | 17 730 | - | - | - |
| Specific provision of South African debtors | 29 464 | - | - | - |
| Reversal of prior year provision | (16 067) | - | - | - |
| Provision for impairment current year | 16 318 | - | - | - |
| **Closing balance** | **166 621** | **-** | **-** | **-** |

All amounts are short-term. The carrying values of trade and other receivables are considered to be a reasonable approximation of fair value.

**23. Restricted cash**

| | | | | |
|---|---|---|---|---|
| **Cash and cash equivalents held by the entity that are not available for use by the group** | | | | |
| Cash and cash equivalents - Restricted cash Zimbabwe | 26 300 | 41 375 | - | - |

Restricted cash deposits above relate to the Zimbabwean operations, which are not available for use by the Group, due to severe long-term restrictions on the repatriation of dividends from Zimbabwe and the volatility of the Zimbabwean RTGS Dollar and the continued uncertainty regarding Zimbabwe's legislative framework, exchange controls and economy. Moreover, the company did not have the necessary control clearance from the Reserve Bank of Zimbabwe to externalise funds by 30 June 2019.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 24. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | | | |
|---|---|---|---|---|
| Cash on hand | 16 086 | 31 211 | - | - |
| Bank balances | 190 629 | 90 165 | 474 | 477 |
| Bank overdraft | (248 155) | (106 448) | - | - |
| | **(41 440)** | **14 928** | **474** | **477** |

The Group has the following banking facilities:

- P53 000 000 overdraft facility from Absa Bank of Botswana Limited secured by a cross-company guarantee of P27 000 000 issued by Choppies Enterprises Limited and its subsidiaries and a deed of hypothecation in favour of Absa Bank of Botswana Limited over movable assets limited to P27 000 000 issued by Choppies Enterprises Limited and its subsidiaries (refer to note 13). At the reporting date P 52 683 829 (2018: P48 624 509) of this facility was utilised.
- P40 000 000 overdraft facility from Standard Chartered Bank Botswana Limited guaranteed by Choppies Enterprises Limited. At the reporting date P39 374 393 (2018: P29 249 495) of the facility was utilised.
- ZWL3 000 000 overdraft facility from Absa Bank of Zimbabwe guaranteed by Choppies Enterprises Limited. Utilised in ZWL at the year-end in ZWL 2 956 706, P 4 745 155 (2018: P28 124 542).
- MZN50 000 000 overdraft facility from FNB Mozambique guaranteed by Choppies Distribution Centre. Utilised in ZWL at the year-end in MZN 39 793 842, P 6 799 832 (2018: MZN43 969 527 (P8 682 924)).
- P90 000 000 overdraft facility from First National Bank Botswana Limited guaranteed by Choppies Enterprises Limited in sum of P90 million and letters of suretyship by Choppies Distribution (Pty) Ltd. Utilised at the year-end P 87 178 927(2018: P 89 726 879).
- ZAR60 000 000 overdraft facility from Absa Bank South Africa Limited guaranteed by Choppies Enterprises Limited. Utilised in ZAR at the year-end in ZAR 35 million, P26 272 331.
- KSH300 000 000 overdraft facility from United Bank of Africa Kenya Limited guaranteed by Choppies Enterprises Limited. Utilised in KSH at the year-end in KSH 300 000 000, P31 100 652.

### 25. Stated capital and treasury shares

| | | | | |
|---|---|---|---|---|
| **Stated capital** | | | | |
| 1 303 628 341 (2018: 1 303 628 341) issued ordinary shares at no par | 906 196 | 906 196 | 906 196 | 906 196 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank pari passu with regard to the company's residual assets.

### 26. Treasury shares

The Group operates an employee share incentive scheme. The scheme is operated through a trust known as "Choppies Group Share Incentive Trust". The trust was established to provide an incentive to the beneficiaries to encourage and commit them to the future interest of the Choppies Group, and subscribe and hold for and the benefit of the beneficiaries, as directed by the directors from time to time, until such time that the shares vest in the beneficiaries.

On 22 May 2017, the Group issued 12 000 000 ordinary shares valued at P30 720 000, to the Choppies Group Incentive Trust. There has been no issue of shares during the year.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**26. Treasury shares (continued)**

| | | | | |
|---|---|---|---|---|
| Total number of shares issued to the trust by issuing new share capital | 12 000 000 | 12 000 000 | - | - |
| Key management personnel | 100 000 | 100 000 | - | - |
| Senior employees | 1 375 000 | 1 375 000 | - | - |
| | **1 475 000** | **1 475 000** | **-** | **-** |
| Total number of shares expensed through the income statement | - | 441 661 | - | - |
| Total number of shares held by the trust | 11 558 339 | 11 558 339 | - | - |
| Value of shares held by the trust | 29 615 835 | 29 615 835 | - | - |

**27. Hyperinflationary translation reserve**

| | | | | |
|---|---|---|---|---|
| Exchange differences on translating foreign operations in hyperinflationary economy | 71 392 | - | - | - |

This reserve is used to report the exchange differences on translating subsidiaries which is based in hyperinflationary economy.

To ease the pressure of a notable foreign currency shortage in that country, the Reserve Bank of Zimbabwe issued a monetary policy document on 1 October 2018 requiring banks to separate bank accounts into a foreign currency United States Dollar (USD) bank account and a local currency USD bank account. The local currency USD bank account is made up of Real Time Gross Settlement (“RTGS”) and bond notes and does not trade on a 1:1 basis to the USD.

The shortage of foreign currency creates uncertainty on the amount and timing of amounts that can be repatriated from Zimbabwe. IAS 21, ‘Foreign currency transactions’ (“IAS 21”) requires the use of a spot rate. The global foreign currency USD rate does not meet the conditions of a spot rate in IAS 21. Accordingly, with effect from 1 October 2018, the Group will apply an unadjusted parallel legal mechanism to translate the results and financial position of its Zimbabwean subsidiary. On 20 February 2019, the Reserve Bank of Zimbabwe (“RBZ ") Governor announced a new Monetary Policy Statement whose highlights were denomination of RTGS system balances, bond notes and coins collectively as RTGS $. RTGS become part of multi-currency system. RTGS $ to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions. The Monetary Policy Statement was followed by the publication of Statutory Instrument (“S.I.") 33 of 2019 on 22 February 2019, which gave effect to the introduction of the RTGS $ as a legal tender and prescribed that "for accounting and other purposes "certain assets and liabilities on the effective date would be deemed to be RTGS $ at a rate of 1:1 to US$ and would become opening RTGS $ values from effective date. In particular, the promulgation of RTGS $ as currency in the opinion of the directors, it was a response to the market perceptions which had come to regard RTGS balances and transactions as representing an underlying de-factor currency.The Monetary Policy Statement also established an interbank foreign exchange market were the exchange rate would be determined by market forces. The interbank market opened trading at a rate of USD $ 1 to RTGS $ 2.5. As on 30 June 2019 the interbank rate was US$ 1 to RTGS 6.62.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**27. Hyperinflationary translation reserve (continued)**

Group translated Zimbabwe result by applying the closing exchange rate as at 30 June 2019 specified by Reserve Bank of Zimbabwe, which is 1Pula: 0.6231 RTGS( in line with the requirement of the provision of IAS 21 for the translation of hyperinflationary economies). If the Group had applied the Old Mutual Implied Closing Rate(“OMIR), which is 1 USD: 8.7312 RTGS, and then covert this USD figure using the exchange rate is between Pula and USD which is 1 Pula:.0942 USD to translate the result of its Zimbabwean subsidiary on 30 June 2019, the effect would have been as follows.

| Summarised statement of comprehensive income for the year ended 30 June 2019 | RTGS To Pula using closing rate | RTGS To Pula using OMIR Closing rate | Net impact |
|---|---|---|---|
| Revenue | 508 493 | 385 228 | 123 265 |
| Profit after tax | 2 041 | 1 546 | 495 |

**28. Foreign currency translation reserve**

This reserve is used to record exchange differences arising from the translation of the results of foreign subsidiaries.

| | | | | |
|---|---|---|---|---|
| Opening balance | 5 999 | 7 937 | - | - |
| Exchange differences on translating foreign operations | (299 111) | (1 114) | - | - |
| Exchange differences on translating foreign operations attributable to non-controlling interest | (1 737) | (824) | - | - |
| | **(294 849)** | **5 999** | **-** | **-** |

**29. Retained earnings**

Retained earnings records the cumulative net profit or loss made by the Group after deducting dividends to shareholders and other utilisation of the reserves.

**30. Dividends paid**

| | | | | |
|---|---|---|---|---|
| Dividends | - | (30 129) | - | (25 876) |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 31. Long term borrowings

| | | | | |
|---|---|---|---|---|
| **Vehicle and aircraft finance at amortised cost** | | | | |
| Scania Finance Southern Africa (Pty) Ltd - Vehicle Finance | 40 792 | 62 182 | - | - |
| Wesbank Botswana Limited - Vehicle and aircraft Finance | 11 641 | 27 018 | - | - |
| ABSA Bank South Africa Limited - Vehicle Finance | 302 | 385 | - | - |
| Standard Bank of South Africa Limited - Vehicle Finance | 1 218 | 2 811 | - | - |
| | **53 953** | **92 396** | **-** | **-** |
| **Bank Borrowings held at amortised cost** | | | | |
| Absa Bank of Botswana Limited | 7 238 | 76 117 | - | - |
| Absa Bank of Mozambique SA | 11 478 | 14 413 | - | - |
| Absa Bank of Botswana Limited | 350 000 | 350 000 | - | - |
| Botswana Investment Fund Management Capital (Bifm Capital) | - | 65 000 | - | - |
| Stanbic Bank of Botswana Limited | 215 000 | 215 000 | - | - |
| Standard Bank of South Africa Limited | - | 2 174 | - | - |
| ABSA Bank South Africa Limited | - | 385 | - | - |
| Loan from landlord - Zambia | 1 058 | - | - | - |
| Absa Bank Kenya Plc | 31 101 | - | - | - |
| Loan from Government of Zimbabwe | 2 996 | - | - | - |
| | **618 871** | **723 089** | **-** | **-** |
| | **672 824** | **815 485** | **-** | **-** |
| **Non-current liabilities** | | | | |
| Finance lease liabilities | 53 953 | 92 396 | - | - |
| Term loans | 572 754 | 616 359 | - | - |
| | **626 707** | **708 755** | **-** | **-** |
| **Current liabilities** | | | | |
| Current portion of long term loans | 46 117 | 106 730 | - | - |
| | **672 824** | **815 485** | **-** | **-** |

**Scania Finance Southern Africa (Pty) Limited**
**Finance lease liabilities**
These lease liabilities are secured over motor vehicles with a net book value of P149 964 210 (2018: P208 902 605).These liabilities bear interest at the South African prime lending rate less 0.5%-1% per annum and are repayable in 24-36 monthly instalments.

**Wesbank Botswana Limited**
**Finance lease liabilities**
These lease liabilities are secured over an aircraft with a net book value of P38 383 894 (2018: P 65 738 879). These liabilities bear interest at the Botswana prime lending rate less 2% per annum and are repayable in 36 monthly installments.

**Absa Bank of Botswana Limited**
The facility is for US$20 000 000 for capital expenditure relating to the expansion of retail stores in Zimbabwe with the following conditions:

- Interest of 350 basis points above the benchmark rate (benchmark rate being three-month US$ LIBOR).
- Quarterly repayments of US$1 121 218 over five years commencing 1 April 2014.
- Secured by an unlimited guarantee provided by Choppies Enterprises Limited.

**Absa Bank of Kenya Plc**
The facility is for KSH 300 000 000 for capital expenditure relating to the expansion of retail stores with the following conditions:

- Interest – at 12.7%

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**31. Long term borrowings (continued)**

- Repayable over 36 months starting from August 2020.
- Secured by a corporate guarantee provided by Choppies Enterprises Limited and moveable assets valued at P8 3804 151 as at 30 June 2019.

**Absa Bank of Mozambique SA**

A facility of MZN124 000 000 for purchase of building in Maputo, Mozambique.

- Interest – Absa Bank of Mozambique prime lending rate less 3.5% being 22.5% as on 30 June 2019.
- Quarterly repayment which average about MZN7 499 884 over a period over five years.
- Secured by a corporate guarantee from Choppies Enterprises Limited, mortgage of the underlying property with a net book value of P 13 416 924 including insurance with the bank and floating charge over all assets of Choppies Supermarket Mozambique, Limitada to the extent of the outstanding balance.

**Loan from Government of Zimbabwe**

The Government of Zimbabwe through Office of the Minister of State Affairs granted the company an emergency business relief loan for the purposes of restocking.

Loan from Government of Zimbabwe

- Interest rate of 4% per annum
- Repayments period is 6 months with a 2 months grace period.

**Standard Bank of South Africa Limited**

A facility of R1 100 000 for vehicle and asset finance, R1 000 000 for fleet management services, credit cards for R410 000,vehicle asset finance for R1700 000 and performance guarantees by the bank for R2 350 000 with the following conditions:

- Any security currently held by the bank in relation to the customer and additional parties shall constitute security.
- The loan attracts interest at a rate of 9.75% and is repayable in 60 months.

**Short term loan from landlord**

This is a short term facility from the landlord of new Stores Zambia taken to acquire capital expenditures items for the stores. The loan attracts interest at 1% per month, is repayable in 4 months from the date of store open and is unsecured. The store opened in December 2019 and the loan was fully repaid in April 2020.

**Absa Bank of Botswana Limited and Stanbic Bank of Botswana Limited**

The lenders have made available two term facility loans, "Facility A" amounts to P500 million (P350 million from Absa Bank of Botswana Limited and P150 million from Stanbic Bank of Botswana Limited) and "Facility B" amounts to P65 million (from Stanbic Bank Botswana Limited). "Facility A" is towards the repayment of the existing facility, capital expenditure, operating expenses and general corporate purposes, including the payment of all fees and expenses relating to the implementation of the facility. Facility B is towards the repayment of the BIFM Bridge Facility.

Facility A is repayable by way of quarterly equal instalments commencing on the first interest payment date the expiry of the moratorium and ending on the final maturity date. Facility B is repayable in February 2021.

Interest is calculated based on, the rate of interest on each loan for interest period is the percentage rate per annum which is the aggregate of the applicable: (a) margin and: (b) the reference rate, their reference rate being prime lending rate. Interest accrues on a day to day basis and is calculated on the basis of 365 days and the actual number of days elapsed on a 365 days per basis. Interest shall accrue on each facility on each interest payment date. The first interest period shall begin at the utilisation date of each loan.

Movable assets with a net book value of P75 017 183 (2018: P 184 058 958) limited to P27 000 000 are encumbered under an overdraft facility with Absa Bank of Botswana.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 31. Long term borrowings (continued)

At the reporting date, finance lease payables were as follows:

| | | | | |
|---|---|---|---|---|
| **Cash flows within one year** | | | | |
| Capital repayments | 46 117 | 106 730 | - | - |
| Interest | 41 662 | 5 459 | - | - |
| | **87 779** | **112 189** | **-** | **-** |
| **Cash flows within two to five years** | | | | |
| Capital repayments | 626 707 | 708 755 | - | - |
| Interest | 49 847 | 4 107 | - | - |
| | **676 554** | **712 862** | **-** | **-** |
| **Total** | | | | |
| Capital repayments | 672 824 | 815 485 | - | - |
| Interest | 91 509 | 9 566 | - | - |
| | **764 333** | **825 051** | **-** | **-** |

### 32. Changes in liabilities arising from financing activities

**Reconciliation of liabilities arising from financing activities - Group - 2019**

| | Opening balance | New loans | Repayments | Closing balance |
|---|---|---|---|---|
| Borrowings | 723 089 | 35 155 | (139 373) | 618 871 |
| | **723 089** | **35 155** | **(139 373)** | **618 871** |
| **Total liabilities from financing activities** | **723 089** | **35 155** | **(139 373)** | **618 871** |

**Reconciliation of liabilities arising from financing activities - Group - 2018**

| | Opening balance | New leases | Repayments | Closing balance |
|---|---|---|---|---|
| Borrowings | 587 896 | 352 846 | (217 653) | 723 089 |
| | **587 896** | **352 846** | **(217 653)** | **723 089** |
| **Total liabilities from financing activities** | **587 896** | **352 846** | **(217 653)** | **723 089** |

### 33. Straight lining lease obligation

| | | | | |
|---|---|---|---|---|
| Non-current liabilities | (119 110) | (73 274) | - | - |
| Current liabilities | (16 303) | (32 355) | - | - |
| | **(135 413)** | **(105 629)** | **-** | **-** |

The Group has entered into various non-cancellable operating lease agreements in respect of rented premises. Leases are contracted for periods of up to 10 years, some with renewal options. Rental charges under these contracts escalate at fixed percentages of 5% to 10% per annum. Rentals comprise minimum monthly payments.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 33. Straight lining lease obligation (continued)

| | | | | |
|---|---|---|---|---|
| Balance at beginning of the year | 105 629 | 80 839 | - | - |
| Charge for the year | 29 784 | 24 790 | - | - |
| | **135 413** | **105 629** | **-** | **-** |

The deferred operating lease liabilities reverse as follows:

| | | | | |
|---|---|---|---|---|
| Within 1 year | 16 303 | 30 564 | - | - |
| 2 - 5 years | 94 894 | 60 364 | - | - |
| 6 - 10 years | 24 216 | 14 701 | - | 16 303 |
| | **135 413** | **105 629** | **-** | **16 303** |

The following future non-cancellable minimum lease rentals for premises occupied by the Group are payable at the reporting date:

| | | | | |
|---|---|---|---|---|
| Within 1 year | 342 386 | 299 461 | - | - |
| 2 – 5 years | 1 009 179 | 930 129 | - | - |
| 6 - 10 years | 234 153 | 307 846 | - | - |
| | **1 585 718** | **1 537 436** | **-** | **-** |

### 34. Trade and other payables

| | | | | |
|---|---|---|---|---|
| Trade payables | 933 702 | 1 164 079 | - | 15 |
| Other payables | 118 405 | 143 045 | 485 | 187 |
| Withholding tax payable | 2 299 | 859 | - | - |
| Accrued leave pay | 819 | 4 306 | - | - |
| | **1 055 225** | **1 312 289** | **485** | **202** |

Trade and other payables are interest-free and have payment terms of up to 30 days.

All amounts are short-term. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value. Information of the Group’s exposure to currency and liquidity risks is included in note 39.

### 35. Contingent liabilities

The Group has the following contingent liabilities at the reporting date:

Choppies Enterprises Limited together with all its subsidiaries have provided a guarantee of P27 million in favour of Absa Bank of Botswana Limited in respect of an overdraft facility of P53 million and a guarantee of P40 million in favour of Standard Chartered Bank Botswana Limited in respect of an overdraft facility of P40 million.

Choppies Enterprises Limited has the following guarantees issued for Nanavac Investments (Pvt) Limited:

| **Beneficiaries** | **2019 US$'000** | **2018 US$'000** | **2019 P'000** | **2018 P'000** |
|---|---|---|---|---|
| Delta Corporation Limited | 800 | 800 | 8 193 | 8 193 |
| National Foods Operations Limited | 700 | 700 | 7 168 | 7 168 |
| Dairibord Zimbabwe (Pvt) Limited | 1 000 | 1 000 | 10 241 | 10 241 |
| Unilever Zimbabwe (Pvt) Limited | 800 | 800 | 8 193 | 8 193 |
| Whirlwyn Trading (Pvt) Limited | 50 | 50 | 512 | 512 |
| | **3 350** | **3 350** | **34 307** | **34 307** |

## Notes to the Consolidated and Separate Financial Statements

**35. Contingent liabilities (continued)**

Choppies Enterprises Limited has the following guarantees issued for Choppies Supermarkets South Africa (Pty) Limited and Choppies Warehousing Services (Pty) Limited:

| Beneficiaries | 2019 R'000 | 2018 R'000 | 2019 P'000 | 2018 P'000 |
|---|---|---|---|---|
| Amka Products (Pty) Limited | 3 000 | 3 000 | 2 448 | 2 348 |
| Glocell (Pty) Limited | 1 000 | 1 000 | 783 | 783 |
| Unilever South Africa (Pty) Limited | 15 000 | 15 000 | 11 738 | 11 738 |
| The South African Breweries (Pty) Limited | 3 000 | 3 000 | 2 348 | 2 348 |
| | **22 000** | **22 000** | **17 317** | **17 217** |

Choppies Enterprises Limited has the following guarantees issued for Choppies Enterprises Kenya Limited:

| Beneficiaries | 2019 KES'000 | 2018 KES'000 | 2019 P'000 | 2018 P'000 |
|---|---|---|---|---|
| Kapa Oil Refineries Limited | 20 000 | 20 000 | 1 972 | 1 972 |
| Unga Limited | 27 000 | 27 000 | 2 662 | 2 662 |
| Del Monte Kenya Limited | 10 000 | 10 000 | 986 | 986 |
| Haco Tiger Brands (EA) Limited | 20 000 | 20 000 | 1 972 | 1 972 |
| | **77 000** | **77 000** | **7 592** | **7 592** |

Choppies Enterprises Limited has the following guarantees issued for Choppies Supermarkets Tanzania Limited:

| Beneficiaries | 2019 TZS'000 | 2018 TZS'000 | 2019 P'000 | 2018 P'000 |
|---|---|---|---|---|
| Tanzanian Breweries Limited | 10 000 | 10 000 | 46 | 46 |
| Bonite Bottlers Limited | 7 500 | 7 500 | 34 | 34 |
| | **17 500** | **17 500** | **80** | **80** |

Choppies Enterprises Limited has the following guarantees issued for Choppies Supermarket Mozambique LDA:

| Beneficiaries | 2019 MZN'000 | 2018 MZN'000 | 2019 P'000 | 2018 P'000 |
|---|---|---|---|---|
| Cervejas De Mozambique, SARL | 3 000 | 3 000 | 511 | 511 |

Choppies Supermarkets SA (Pty) Limited has the following guarantees with Standard Bank of South Africa Limited:

| Beneficiaries | 2019 R'000 | 2018 R'000 | 2019 P'000 | 2018 P'000 |
|---|---|---|---|---|
| South African Revenue Service | 50 | 50 | 39 | 39 |
| Parmalat SA (Pty) Limited | 300 | 300 | 235 | 235 |
| Unilever South Africa (Pty) Limited | 500 | 500 | 391 | 391 |
| Coca Cola Fortune (Pty) Limited | 750 | 750 | 587 | 587 |
| Tshwane Fresh Produce Market (Pty) Limited | 500 | 500 | 391 | 391 |
| Blinkwater Mills (Pty) Limited | 250 | 250 | 196 | 196 |
| | **2 350** | **2 350** | **1 839** | **1 839** |

•All South Africa supplier guarantees are released with effect of 22 April 2020

•Guarantees for Kenya, Tanzania &Mozambique will be released immediately once supplier dues are fully settled.

## Notes to the Consolidated and Separate Financial Statements

### 35. Contingent liabilities (continued)

Pursuant to a collective buying agreement entered into between one of the Group's Botswana subsidiaries and a number of Botswana entities collectively trading as Fours Cash & Carry (the "Fours Companies"), the Group issued guarantees to third party suppliers of the Fours Companies totaling P100 550 000 as at 30 June 2018. As at January 2019 the said guarantees had been revoked.

Table detailed below is the list of guarantees provided by the company as at 30 June 2018.

| (in P'000) | Global Holdings (Pty) Ltd | CA Sales (Pty) Ltd | Dafin Sales (Pty) Ltd | Bolux Milling (Pty) Ltd | NBL Botswana (Pty) Ltd | Bokomo Botswana (Pty) Ltd | Parmalat (Pty) Ltd | Clover (Pty) Ltd | Senn Foods (Pty) Ltd | World wide (Pty) Ltd | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Hesburger (Pty) Ltd | - | 5 200 | 1 000 | - | - | 500 | 2 000 | - | - | - | 8 700 |
| Lesney (Pty) Ltd | 4 000 | 4 000 | 1 000 | 250 | 500 | 2 000 | - | - | - | - | 11 750 |
| Sharpview (Pty) Ltd | 4 600 | 4 800 | 1 500 | 250 | 1 200 | 600 | 200 | 200 | 100 | - | 13 450 |
| Custody (Pty) Ltd | 3 800 | 8 250 | 2 800 | 350 | 2 100 | 500 | 350 | 200 | 100 | 800 | 19 250 |
| Shine Star (Pty) Ltd | - | 4 200 | 1 000 | 800 | 800 | 2 000 | - | - | - | - | 8 800 |
| Hyperite (Pty) Ltd | - | 4 200 | 1 000 | 800 | 800 | 2 000 | - | - | - | - | 8 800 |
| Silverlight (Pty) Ltd | - | 4 600 | 2 000 | 800 | 800 | - | - | - | - | - | 8 200 |
| Citylab (Pty) Ltd | - | 6 300 | 2 000 | 800 | 1 000 | 2 000 | - | - | - | - | 12 100 |
| Tiger Square (Pty) Ltd | - | 6 500 | 2 000 | 800 | 1 000 | - | - | - | - | - | 10 300 |
| **Total** | **12 400** | **48 050** | **14 300** | **4 850** | **8 200** | **9 600** | **2 550** | **400** | **200** | **800** | **100 550** |

## Notes to the Consolidated and Separate Financial Statements

### 36. Business combinations

On 1st of November 2017, the Group acquired eight stores in Kwazulu-Natal, which were trading under the name "Arizona Wholesalers and Butcheries", hereafter referred to as "Arizona", through its subsidiary, Choppies Supermarkets SA (Pty) Ltd, in which the Group owns 100% shares and voting rights.

Between September 2017 and November 2017, the Group acquired four stores in Northwest, from ANE Western Cape (Pty)Ltd, Mandangi Cash and Carry and Ernvill Trading CC as detailed below, through its subsidiary, Choppies Supermarkets SA (Pty) Ltd, in which the Group owns 100% shares and voting rights.

The acquisitions expand the Group's presence in areas previously under serviced by Choppies and are expected to increase revenue and earnings in future. As a socially responsible corporate Group, the Group retained all staff working in the acquired companies and also employed additional staff to enhance the management team.

**Kwazulu-Natal acquisitions**

| Acquired by | Acquired from | Date | T/A name of Business |
|---|---|---|---|
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Pongola Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Jozini Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Nongoma Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Ulundi Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Hlabisa Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Melmoth Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Mtumbatuba Store |
| Choppies Supermarkets SA Pty Ltd | Arizona Wholesale and Butchery (Pty)Ltd | 1/11/2017 | Arizona Eshowe Store |

**Northwest acquisitions**

| Acquired by | Acquired from | Date | T/A name of Business |
|---|---|---|---|
| Choppies Supermarkets SA Pty Ltd | ANE Western Cape (Pty)Ltd | 7/10/2017 | Hyperland Bela Bela |
| Choppies Supermarkets SA Pty Ltd | ANE Western Cape (Pty)Ltd | 19/8/2017 | Cliffy cash and carry |
| Choppies Supermarkets SA Pty Ltd | Mandangi Cash and Carry | 24/10/2017 | Phumulu cash and carry |
| Choppies Supermarkets SA Pty Ltd | Ernvill Trading CC | 13/9/2017 | Spar vandyk park |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 36. Business combinations (continued)

The net assets of the acquired businesses is summarised as follows.

**Aggregated business combinations**

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | - | 40 337 | - | - |
| Inventories | - | 20 792 | - | - |
| Cash and cash equivalents | - | 2 282 | - | - |
| Total identifiable net assets | - | 63 411 | - | - |
| Goodwill and intangible asset | - | 94 590 | - | - |
| | **-** | **158 001** | **-** | **-** |

**Net cash outflow on acquisition**

| | | | | |
|---|---|---|---|---|
| Cash consideration paid | - | (158 001) | - | - |
| Cash acquired | - | 2 282 | - | - |
| | **-** | **(155 719)** | **-** | **-** |

**Arizona Wholesale and Butchery (Pty)Ltd**

**Fair value of assets acquired and liabilities assumed**

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | - | 18 168 | - | - |
| Inventories | - | 16 020 | - | - |
| Cash and cash equivalents | - | 2 282 | - | - |
| Total identifiable net assets | - | 36 470 | - | - |
| Goodwill and intangible asset | - | 55 764 | - | - |
| | **-** | **92 234** | **-** | **-** |

**Acquisition date fair value of consideration paid**

| | | | | |
|---|---|---|---|---|
| Cash | - | (92 234) | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 36. Business combinations (continued)

**Cliffy cash and carry**

**Fair value of assets acquired and liabilities assumed**

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | - | 6 894 | - | - |
| Inventories | - | 816 | - | - |
| Total identifiable net assets | - | 7 710 | - | - |
| Goodwill and intangible asset | - | 21 484 | - | - |
| | **-** | **29 194** | **-** | **-** |

**Acquisition date fair value of consideration paid**

| | | | | |
|---|---|---|---|---|
| Cash | - | (29 194) | - | - |

**Hyperland Bela Bela**

**Fair value of assets acquired and liabilities assumed**

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | - | 5 361 | - | - |
| Inventories | - | 527 | - | - |
| Total identifiable net assets | - | 527 | - | - |
| Goodwill and intangible asset | - | 17 342 | - | - |
| | **-** | **23 230** | **-** | **-** |

**Acquisition date fair value of consideration paid**

| | | | | |
|---|---|---|---|---|
| Cash | - | (23 230) | - | - |

**Others**

**Fair value of assets acquired and liabilities assumed**

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | - | 9 914 | - | - |
| Inventories | - | 3 429 | - | - |
| | **-** | **13 343** | **-** | **-** |

**Acquisition date fair value of consideration paid**

| | | | | |
|---|---|---|---|---|
| Cash | - | (13 343) | - | - |

# Notes to the Consolidated and Separate Financial Statements

## 37. Related parties

The Group's related parties include its key management, companies with common directors and ownership.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

**Related party balances**

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |
| **Amounts due from related entities** | | | | |
| Adam's Apple (Pty) Ltd | 33 | 37 | - | - |
| Admiral Touch (Pty) Ltd | 28 | 66 | - | - |
| Alpha Direct Insurance Company (Pty) Ltd | 34 | - | - | - |
| Arcee (Pty) Ltd | 193 | 713 | - | - |
| Backwater Holdings (Pty) Ltd | 13 | 13 | - | - |
| Bagpiper (Pty) Ltd | 509 | 40 | - | - |
| Balance Fortune (Pty) Ltd | 27 | 118 | - | - |
| Beavers Investments (Pty) Ltd | - | - | - | 397 |
| Boitumelo Foundation | 19 | - | - | - |
| Brass Lock (Pty) Ltd | 6 | - | - | - |
| Bull Shot (Pty) Ltd | 3 | - | - | - |
| Choppies Distribution Centre (Pty) Ltd | - | - | 269 413 | 255 250 |
| Choppies Supermarkets SA (Pty) Ltd | - | - | 47 645 | 47 645 |
| Choppies Supermarkets SA (Pty) Ltd - impairment | - | - | (47 645) | - |
| Cornbill (Pty) Ltd | - | 5 | - | - |
| Dissel Dow (Pty) Ltd | - | 3 | - | - |
| Distron Botswana (Pty) Ltd | 1 | - | - | - |
| Feasible Investments (Pty) Ltd | 119 | 1 217 | - | - |
| Golkonda Holding (Pty) Ltd | 66 | - | - | - |
| Handsome Returns (Pty) Ltd | 11 | 11 | - | - |
| Honey Guide (Pty) Ltd | 275 | - | - | - |
| I Qube (Pty) Ltd | 107 | - | - | - |
| Ilo Industries SA (Pty) Ltd | 2 255 | 1 217 | - | - |
| Iqube SA (Pty) Ltd | - | 6 729 | - | - |
| JB Sports Holdings (Pty) Ltd | - | 58 | - | - |
| Kanye Friendly Grocer (Pty) Ltd | - | - | - | 400 |
| Kelsey Investments (Pty) Ltd | 2 | 2 | - | - |
| Keriotic Investments SA (Pty) Ltd | 5 594 | - | - | - |
| Landcaster (Pty) Ltd | 4 | - | - | - |
| Longreach (Pty) Ltd | - | 679 | - | - |
| Mackinnon Holdings (Pty) Ltd | 22 | 24 | - | - |
| Match Up Investments (Pty) Ltd | 4 | - | - | - |
| Maximel Enterprises (Pty) Ltd | 3 | 4 | - | - |
| Mediland Health Care Distributors (Pty) Ltd | 54 | - | - | - |
| MegaSave (Pty) Ltd | - | - | - | 6 144 |
| Modasa Investments (Pty) Ltd | 5 | - | - | - |
| Mont Catering and Refrigeration (Pty) Ltd | 544 | - | - | - |
| Mont Catering and Refrigeration (Pty) Ltd | 5 | - | - | - |
| Morava (Pty) Ltd | 3 | - | - | - |
| Nanavac Investments (Pty) Ltd | - | - | 17 879 | 17 879 |
| Nanavac Investments (Pty) Ltd - Impairment | - | - | (17 879) | (17 879) |
| Nestral Systems (Pty) Ltd | - | 10 087 | - | - |
| Ovais Investments (Pty) Ltd | 72 | 58 | - | - |
| Pennywise Investments (Pty) Ltd | 8 | 42 | - | - |
| Princieton (Pty) Ltd | 5 | 543 | - | - |
| Prosperous People (Pty) Ltd | 4 | 6 | - | - |
| RBV Consultants (Pty) Ltd | 1 135 | - | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |
| **37. Related parties (continued)** | | | | |
| Raywood (Pty) Ltd | 23 | - | - | - |
| Real Plastic Mould (Pty) Ltd | 1 763 | - | - | - |
| Royal Stag (Pty) Ltd | 1 | - | - | - |
| Shaysons Investments (Pty) Ltd | 219 | - | - | - |
| Solace (Pty) Ltd | 226 | - | - | - |
| Stonehouse investments (Pty) Ltd | - | 12 | - | - |
| Strides of Success (Pty) Ltd | 2 | 26 | - | - |
| SupaSave (Pty) Limited | - | - | - | 21 420 |
| The Far Property Company (Pty) Ltd | 222 | 369 | - | - |
| Tiger Square (Pty) Ltd | 4 | - | - | - |
| Tim Tam (Pty) Ltd | 7 | 31 | - | - |
| Tow Bar (Pty) Ltd | 3 | 3 | - | - |
| Venta (Pty) Ltd | 12 | - | - | - |
| Vet Agric Suppliers (Pty) Ltd | 1 287 | 215 | - | - |
| Weal (Pty) Ltd | 6 | 2 | - | - |
| Zappos (Pty) Ltd | (4) | 4 | - | - |
| Zcx Investments (Pty) Ltd | 22 | 91 | - | - |
| | **14 956** | **22 425** | **269 413** | **331 256** |

The balances are unsecured, interest-free and repayable on demand. In the company an impairment loss of P 47.645 million was recognised for amounts due from related parties as a result of management assessment of Choppies Supermarket SA (Pty) Ltd's inability to repay the amounts advances in the near future. No other impairment losses have been recognise during the financial year.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 37. Related parties (continued)

| | | | | |
|---|---|---|---|---|
| **Amounts due to related entities** | | | | |
| Adam's Apple (Pty) Ltd | 231 | 254 | - | - |
| Admiral Touch (Pty) Ltd | 199 | - | - | - |
| Alpha Direct Insurance Company (Pty) Ltd | 3 092 | 3 451 | - | - |
| Arcee (Pty) Ltd | 3 671 | 1 310 | - | - |
| Bagpiper (Pty) Ltd | 1 121 | 702 | - | - |
| Balance Fortune (Pty) Ltd | 2 962 | 1 207 | - | - |
| Bargen (Pty) Ltd | 33 | - | - | - |
| Botswana Telecommunications Corporation Ltd | 205 | - | - | - |
| Browallia (Pty) Ltd | 7 | - | - | - |
| Chathley Enterprises (Pty) Ltd | - | - | - | 5 036 |
| Cornbill (Pty) Ltd | - | 8 | - | - |
| Distron Botswana (Pty) Ltd | 261 | - | - | - |
| Diswammind Investment (Pty) Ltd | 223 | - | - | - |
| Electrometic Enterprises (Pty) Ltd | 1 023 | 616 | - | - |
| F & A Enterprises (Pty) Ltd | - | - | - | 3 576 |
| Feasible Investment (Pty) Ltd | 4 834 | 4 207 | - | - |
| Ghanzi Highway Filling Station (Pty) Ltd | 18 | 39 | - | - |
| Golkonda holding (Pty) Ltd | 292 | - | - | - |
| Honey Guide (Pty) Ltd | 9 867 | - | - | - |
| I Qube SA Proprietary Ltd | 17 | - | - | - |
| Ilo Industries SA (Pty) Ltd | 6 295 | 2 381 | - | - |
| Ilo Industries (Pty) Ltd | 8 506 | - | - | - |
| Industrial Filling Station (Pty) Ltd | 10 | - | - | - |
| Kaar Distributors & Marketing Services (Pty) Ltd | - | - | - | 2 170 |
| Keriotic Investments SA (Pty) Ltd | 12 522 | 25 998 | - | - |
| Keriotic Investments (Pty) Ltd | 26 834 | - | - | - |
| Macha Investments (Pty) Ltd | - | - | - | 2 490 |
| Mackinnon Holdings (Pty) Ltd | 44 | 37 | - | - |
| Mafila Holdings (Pty) Ltd | - | - | - | 150 |
| Mall Motors Botswana (Pty) Ltd | 7 | - | - | - |
| Mediland Health Care Distributors (Pty) Ltd | 13 | - | - | - |
| Modasa Investments (Pty) Ltd | 2 | - | - | - |
| Mont Catering and Refrigeration (Pty) Ltd | 2 558 | - | - | - |
| Mont Catering and Refrigeration SA (Pty) Ltd | 11 230 | - | - | - |
| Pennywise Investments (Pty) Ltd | 46 | 1 | - | - |
| Pinestone (Pty) Ltd | 292 | 218 | - | - |
| Princieton (PTY) Ltd | 12 | - | - | - |
| Prosperous People (Pty) Ltd | 95 | 5 | - | - |
| RBV Consultants SA (Pty) Ltd | 5 326 | 915 | - | - |
| RBV Marketing (Pty) Ltd | 5 369 | 200 | - | - |
| Real Plastic Mould (Pty) Ltd | 1 985 | - | - | - |
| Royal Stag (Pty) Ltd | 5 | - | - | - |
| Shaysons Investments (Pty) Ltd | 792 | - | - | - |
| Solace (Pty) Limited | 1 443 | 1 126 | - | - |
| The Far Property Company Ltd | 102 | - | - | - |
| Vet Agric Suppliers (Pty) Ltd | 6 422 | - | - | - |
| Whitecoral (Pty) Ltd | 8 | - | - | - |
| Walrus (Pty) Ltd | - | - | - | 256 |
| Zcx Investment (Pty) Ltd | 28 | - | - | - |
| | **118 002** | **42 675** | **-** | **13 678** |

# Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

## 37. Related parties (continued)

These balances are trading related, are based on mutually agreed terms and conditions, unsecured and interest-free and are payable under normal trading terms.

**Related party transactions**

| **Purchase of goods/services from related entities** | | | | |
|---|---|---|---|---|
| Adam's Apple (Pty) Ltd | 3 441 | 2 763 | - | - |
| Admiral Touch (Pty) Ltd | 3 714 | - | - | - |
| Alpha Direct Insurance Company (Pty) Ltd | 5 028 | - | - | - |
| Arcee (Pty) Ltd | 20 662 | 6 778 | - | - |
| Ascending Returns (Pty) Ltd | 658 | 537 | - | - |
| Ausi Holdings (Pty) Ltd | 453 | 467 | - | - |
| Bagpiper (Pty) Ltd | 10 002 | 5 176 | - | - |
| Balance Fortune (Pty) Ltd | 11 157 | 3 840 | - | - |
| Balsam (Pty) Ltd | 9 | - | - | - |
| Bargen (Pty) Ltd | 1 133 | - | - | - |
| Botswana Telecommunications Corporation Ltd | 6 006 | - | - | - |
| Browallia (Pty) Ltd | 221 | - | - | - |
| Bull Shot (Pty) Ltd | 1 487 | - | - | - |
| Cornbill (Pty) Ltd | 7 | 55 | - | - |
| Cottonvale (Pty) Ltd | - | 17 | - | - |
| Distron Botswana (Pty) Ltd | 3 302 | - | - | - |
| Distron Zambia (Pty) Ltd | 4 647 | - | - | - |
| I Qube SA (Pty) Ltd | - | 16 244 | - | - |
| Electrometic Enterprises (Pty) Ltd | 6 292 | 6 703 | - | - |
| Elmsway Consultancy (Pty) Ltd - Louie Villa, Zambia | 7 | - | - | - |
| Feasible Investment (Pty) Ltd | 27 677 | 30 555 | - | - |
| Ghanzi Highway Filling Station (Pty) Ltd | 198 | 138 | - | - |
| Gironde (Pty) Ltd | 3 | - | - | - |
| Golkonda Holding (Pty) Ltd | 1 125 | - | - | - |
| Healthwest Africa (Pty) Ltd | 995 | - | - | - |
| Holario Investments (Pty) Ltd | 36 | 382 | - | - |
| Honey Guide (Pty) Ltd | 50 881 | - | - | - |
| I Qube (Pty) Ltd | 10 899 | 48 649 | - | - |
| Ilo Industries SA (Pty) Ltd | 66 637 | 11 143 | - | - |
| Industrial Filling Station (Pty) Ltd | 144 | 106 | - | - |
| Jane Pink (Pty) Ltd | 3 | - | - | - |
| JB Sports Holdings (Pty) Ltd | 9 | - | - | - |
| Keriotic Investments SA (Pty) Ltd | 2 938 | 45 468 | - | - |
| Keriotic Investments (Pty) Ltd | 193 446 | - | - | - |
| Land Caster (Pty) Ltd | 2 | - | - | - |
| Longreach (Pty) Ltd | 10 | - | - | - |
| Mackinnon Holdings (Pty) Ltd | 460 | 308 | - | - |
| Magnafit (Pty) Ltd | 38 | - | - | - |
| Mall Motors Botswana (Pty) Ltd | 125 | 75 | - | - |
| Match Up Investments (Pty) Ltd | 4 | - | - | - |
| Maximel Enterprises (Pty) Ltd | - | 3 | - | - |
| Mediland Health care distributors (Pty) Ltd | 3 589 | - | - | - |
| Modasa Investments (Pty) Ltd | 3 | - | - | - |
| Mont Catering and Refrigeration (Pty) Ltd | 16 100 | - | - | - |
| Mont Catering and Refrigeration SA (Pty) Ltd | 3 238 | - | - | - |
| Montrose Investment (Pty) Ltd | 14 623 | - | - | - |
| Morava (Pty) Ltd | 69 | - | - | - |
| Nestral System Pvt Ltd | 957 | 17 729 | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |
| **37. Related parties (continued)** | | | | |
| Pennywise Investments (Pty) Ltd | 227 | 127 | - | - |
| Pinestone (Pty) Ltd | 3 211 | 2 449 | - | - |
| Prosperous People (Pty) Ltd | 1 269 | 297 | - | - |
| Princieton (Pty) Ltd | 489 | - | - | - |
| Q Tique 79 (Pty) Ltd | 30 987 | 25 118 | - | - |
| RBV Consultants SA (Pty) Ltd | 29 120 | 11 729 | - | - |
| RBV Marketing (Pty) Ltd | 8 493 | 658 | - | - |
| Real Plastic Mould (Pty) Ltd | 16 830 | - | - | - |
| Royal Stag (Pty) Ltd | 18 | - | - | - |
| Shaysons Investments (Pty) Ltd | 3 246 | - | - | - |
| Solace (Pty) Ltd | 34 623 | 33 342 | - | - |
| Texo (Pty) Ltd | 2 | - | - | - |
| Tim Tam (Pty) Ltd | - | 4 | - | - |
| Vet Agric Suppliers (Pty) Ltd | 98 506 | 94 563 | - | - |
| Whitecoral (Pty) Ltd | 156 | 64 | - | - |
| Zcx Investment (Pty) Ltd | 179 | - | - | - |
| | **699 791** | **365 487** | **-** | **-** |
| **Sale/(sales returns) of stock to related entities** | | | | |
| Adam's Apple (Pty) Ltd | 333 | 390 | - | - |
| Admiral Touch (Pty) Ltd | 700 | - | - | - |
| Alpha Direct Insurance Company (Pty) Ltd | 315 | - | - | - |
| Arcee (Pty) Ltd | 1 565 | 749 | - | - |
| Ausi Holdings (Pty) Ltd | (7) | - | - | - |
| Backwater Holdings (Pty) Ltd | 2 | 8 | - | - |
| Bagpiper (Pty) Ltd | 1 138 | 355 | - | - |
| Balance Fortune (Pty) Ltd t/a Quick | 348 | - | - | - |
| Balsam (Pty) Ltd | 24 | - | - | - |
| Boitumelo Foundation | 426 | - | - | - |
| Brass Lock (Pty) Ltd | 42 | - | - | - |
| Bull Shot (Pty) Ltd | 1 282 | - | - | - |
| Cornbill (Pty) Ltd | 30 | 52 | - | - |
| Cottonvale (Pty) Ltd | - | 18 | - | - |
| Dissel Dow (Pty) Ltd | 24 | 14 | - | - |
| Distron Botswana (Pty) Ltd | 29 | - | - | - |
| Electrometic Enterprises (Pty) Ltd | 113 | 276 | - | - |
| Feasible Investments (Pty) Ltd | 857 | 418 | - | - |
| Gironde (Pty) Ltd | 15 | - | - | - |
| Golkonda Holding (Pty) Ltd | 427 | - | - | - |
| Holario Investments (Pty) Ltd | - | 66 | - | - |
| Honey Guide (Pty) Ltd | 3 092 | - | - | - |
| Hoplite (Pty) Ltd | 42 | - | - | - |
| I Qube (Pty) Ltd | 126 | 901 | - | - |
| Ilo Industries (Pty) Ltd | 4 544 | - | - | - |
| Ilo Industries SA (Pty) Ltd | 83 | - | - | - |
| JB Sports Holdings (Pty) Ltd | - | 268 | - | - |
| Jane Pink (Pty) Ltd | 19 | - | - | - |
| Keriotic Investments SA (Pty) Ltd | 45 | 1 069 | - | - |
| Keriotic Investments(Pty) Ltd | 14 641 | - | - | - |
| Landcaster (Pty) Ltd | 30 | - | - | - |
| Lumpsum Investments (Pty) Ltd | 17 | - | - | - |
| Mackinnon Holdings (Pty) Ltd | 251 | 156 | - | - |
| Maganafit (Pty) Ltd | 19 | - | - | - |
| Match Up Investments (Pty) Ltd | 18 | - | - | - |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |
| **37. Related parties (continued)** | | | | |
| Maximel Enterprises (Pty) Ltd | 19 | 28 | - | - |
| Mediland Health Care Distributors (Pty) Ltd | 336 | - | - | - |
| Modasa Investments (Pty) Ltd | 38 | - | - | - |
| Mont Catering and Refrigeration ( Pty) Ltd | 324 | - | - | - |
| Montrose Investment (PTY) Ltd | 302 | - | - | - |
| Morava (Pty) Ltd | 21 | - | - | - |
| Nestral System Pvt Ltd | 27 | - | - | - |
| Ovais Investment (Pty) Ltd | 354 | - | - | - |
| Ovais Investments (Pty) Ltd | - | 268 | - | - |
| Pennywise Investments (Pty) Ltd | 63 | 56 | - | - |
| Pinestone (Pty) Ltd | - | 10 | - | - |
| Princieton (Pty) Ltd | 378 | 87 | - | - |
| Prosperous People (Pty) Ltd | 27 | 46 | - | - |
| RBV Consultants (Pty) Ltd | 4 285 | - | - | - |
| Raywood (Pty) Ltd | 71 | - | - | - |
| Real Plastic Mould (Pty) Ltd | 1 669 | - | - | - |
| Royal Stag (Pty) Ltd | 38 | - | - | - |
| Shaysons Investments (Pty) Ltd | 732 | - | - | - |
| Solace (Pty) Limited | 2 942 | 817 | - | - |
| Stonehouse investments (Pty) Ltd | - | 99 | - | - |
| Strides of Success (Pty) Ltd | 73 | 141 | - | - |
| Texo (Pty) Ltd | 38 | - | - | - |
| The FAR Property Company (Pty) Ltd | 742 | 349 | - | - |
| Tiger square (Pty) Ltd | 122 | - | - | - |
| Tim Tam (Pty) Ltd | 54 | 129 | - | - |
| Venta (Pty) Ltd | 121 | - | - | - |
| Vet Agric Suppliers (Pty) Ltd | 8 583 | 1 442 | - | - |
| Weal (Pty) Limited | 38 | 26 | - | - |
| Zcx Investment (Pty) Ltd | 198 | - | - | - |
| | **52 185** | **8 238** | **-** | **-** |
| **Rent paid to related entity** | | | | |
| The FAR Property Company (Pty) Ltd | 60 262 | 58 324 | - | - |
| **Dividend income received from related entity** | | | | |
| Choppies Distribution Centre (Pty) Ltd | - | - | - | 25 876 |

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

### 38. Amounts paid to key personnel

The table below provides key management personnel compensation during the year including directors and their close family members.

| | | | | |
|---|---|---|---|---|
| **Directors fees** | | | | |
| **Non - Executive Directors** | | | | |
| His Excellency Festus Gontebanye Mogae | 867 | 133 | - | - |
| Wilfred Mpai | 933 | - | - | - |
| Robert Neil Matthews | 567 | 400 | - | - |
| Dorcas Ana Kgosietsile | 1 300 | 400 | - | - |
| Sydney Alan Muller | 200 | 400 | - | - |
| Farouk Essop Ismail | 733 | 133 | - | - |
| | **4 600** | **1 466** | **-** | **-** |
| **Salaries** | | | | |
| **Executive Directors** | | | | |
| Farouk Essop Ismail | 914 | - | - | - |
| Ramachandran Ottapathu | 10 595 | 10 595 | - | - |
| Sanooj Pullarote | 1 766 | 1 751 | - | - |
| Heinrich Stander | 1 435 | - | - | - |
| | **14 710** | **12 346** | **-** | **-** |
| **Retainer fees** | | | | |
| **Non - Executive Directors** | | | | |
| His Excellency Festus Gontebanye Mogae | 529 | 529 | - | - |
| Robert Neil Matthews | - | 276 | - | - |
| Dorcas Ana Kgosietsile | 176 | 176 | - | - |
| Sydney Alan Muller | - | 500 | - | - |
| Farouk Essop Ismail | 176 | 416 | - | - |
| Wilfred Mpai | 293 | - | - | - |
| | **1 174** | **1 897** | **-** | **-** |
| **Salaries** | | | | |
| **Related to other key management personnel** | | | | |
| Vidya Sanooj | 1 114 | 1 208 | - | - |
| Jalajakumari Ramachandran | 1 246 | 1 229 | - | - |
| | **2 360** | **2 437** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

### 39. Risk management

**Overview**

The Group is exposed to credit, liquidity, interest rate and foreign currency risk due to the effects of changes in debt, exchange rates and interest rates experienced in the normal course of business. The Group's objective is to effectively manage each of the risks associated with its financial instruments in order to minimise the potential adverse effect on the financial performance and position of the Group.

**Risk management framework**

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's board of directors through the audit and risk committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

Post-tax profit for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

**Interest rate risk**

The Group's interest rate risk arises from borrowings, cash and cash equivalents and loans. Fixed rate borrowings expose the Group to fair value interest rate risk. Variable rate borrowings, loans and cash and cash equivalents results in cash flow interest rate risks. Other than ensuring optimum money market rates for deposits, the Group does not make use of financial instruments to manage this risk.

The Group invests with reputable institutions and has obtained borrowings and overdraft facilities, which are subject to normal market interest rate risk. The effective annual interest rates on the Group's call deposits, long-term borrowings and bank overdrafts at year-end were as follows:

| **Interest cost** | **2019** | **2018** |
|---|---|---|
| **Botswana** | | |
| Wesbank Botswana Limited | Prime less 2% | Prime less 2% |
| Absa Bank of Botswana Limited (overdraft) | Prime less 2.5% | Prime less 2.5% |
| Standard Chartered Bank Botswana Limited (overdraft) | Prime less 1% | Prime less 1% |
| Absa Bank of Botswana Limited (term loan) | Prime | Prime |
| **South Africa** | | |
| Scania Finance Southern Africa | Prime less 2% | Prime less 2% |
| Absa Bank of Botswana Limited | Prime lending rate | Prime lending rate |
| **Zimbabwe** | | |
| Absa Bank of Zimbabwe Limited | 3.5% above 3-month LIBOR | 3.5% above 3-month LIBOR |
| Absa Bank of Zimbabwe Limited (overdraft) | 3.5% above 3-month LIBOR | 3.5% above 3-month LIBOR |

**39. Risk management (continued)**

| Interest income | 2019 | 2018 |
|---|---|---|
| **Botswana** | | |
| Call accounts denominated in Pula | 4.00% to 6.00% | 4.00% to 6.00% |
| Call accounts denominated in foreign currencies | 1.00% to 2.00% | 1.00% to 2.00% |
| Fixed deposits with banks | 5.50% to 7.00% | 5.50% to 7.00% |

| | | |
|---|---|---|
| **South Africa** | | |
| Call accounts denominated in Rand | 5.00% to 7.00% | 5.00% to 7.00% |

The following are the Pula equivalent of the balances susceptible to interest rate risk:

| | Group | | Company | |
|---|---|---|---|---|
| **In P'000** | **2019** | **2018** | **2019** | **2018** |
| Long-term borrowings | (672 824) | (815 485) | - | - |
| Bank overdrafts | (248 155) | (106 448) | - | - |
| Call accounts denominated in Pula | 8 145 | 66 070 | - | - |
| Call accounts denominated in foreign currencies | 5 075 | 11 926 | - | - |
| Fixed deposits with banks | 4 100 | 1 662 | - | - |

With average interest rates as noted, an increase/decrease of 5% in the current interest rates during the reporting period would have increase/decreased the Group's profit before taxation and equity as disclosed below:

**Impact on profit before tax**
Pre-tax profit for the year would have been P 3 946 (2018: P 2 966 815) lower/higher, mainly as a result of higher/lower interest expense and income on floating rate borrowings and interest bearing assets.

**Impact on equity**
Impact on equity for the year would have been P 3 078 (2018: P 2 314) lower/higher, mainly as a result of higher/lower interest expense and income on floating rate borrowings and interest bearing assets.

**Foreign exchange risk**

The Group is exposed to foreign currency risk for transactions which are denominated in currencies other than the Botswana Pula. These transactions mainly relate to the Group's distribution and retail trading business and its investment in foreign operations. These transactions are predominantly denominated in South African Rand, United States Dollar and British Pound Sterling.

Foreign currency risks that do not influence the Group's cash flows (i.e. the risks resulting from the translation of assets and liabilities of foreign operations in the Group's reporting currency) are not hedged.

| | | 30 June 2019 | | 30 June 2018 | |
|---|---|---|---|---|---|
| **Group** | | **Foreign currency amount** | **Pula equivalent** | **Foreign currency amount** | **Pula equivalent** |
| South African Rand denominated assets – balances with banks | R'000 | 66 666 | 50 042 | 54 369 | 41 145 |
| United States Dollar denominated assets – balances with banks | US$'000 | 890 | 9 448 | 4 380 | 45 673 |
| British Pound Sterling denominated assets – balances with banks | GBP'000 | 154 | 2 075 | 154 | 2 110 |
| South African Rand denominated assets – Receivables | R'000 | 58 765 | 44 111 | - | - |
| United States Dollar denominated assets – Receivables | US$'000 | 20 | 212 | - | - |
| South African Rand denominated liabilities | R'000 | (931 440) | (699 174) | (949 643) | (718 664) |
| United States Dollar denominated liabilities | US$'000 | (4 787) | (50 817) | (516) | (5 381) |

## Notes to the Consolidated and Separate Financial Statements

**39. Risk management (continued)**

| | | |
|---|---|---|
| **Year end rates** | | |
| South African Rand | 1.3322 | 1.3214 |
| United States Dollar | 0.0942 | 0.0959 |
| British Pound Sterling | 0.0742 | 0.7030 |

| | | |
|---|---|---|
| **Average exchange rates** | | |
| South African Rand | 1.3329 | 1.2905 |
| United States Dollar | 0.0941 | 0.0920 |
| British Pound Sterling | 0.0729 | 0.0751 |

A 10% weakening of the Botswana Pula against the above mentioned foreign currencies at the reporting date would have decreased/increased the Group's profit before taxation and equity by the amounts disclosed below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Group 2019 | | Group 2018 | |
|---|---|---|---|---|
| | **Impact on profit before tax** | **Impact on equity** | **Impact on profit before tax** | **Impact on equity** |
| South African Rand denominated assets – balances with banks | 5 004 | 3 903 | 4 115 | 3 209 |
| United States Dollar denominated assets – balances with banks | 945 | 737 | 4 567 | 3 562 |
| British Pound Sterling denominated assets – balances with banks | 208 | 162 | 211 | 165 |
| South African Rand denominated assets – Receivables | 4 411 | 3 441 | - | - |
| United States Dollar denominated assets – Receivables | 21 | 17 | - | - |
| South African Rand denominated liabilities | (69 917) | (54 536) | (71 859) | (56 050) |
| United States Dollar denominated liabilities | (5 082) | (3 964) | (538) | (420) |
| | **(64 410)** | **(50 240)** | **(63 504)** | **(49 534)** |

A 10% strengthening of the Botswana Pula against the above mentioned currencies at the reporting date would have had an equal but opposite effect on the Group's profit before taxation and equity to the amounts disclosed above.

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects its foreign exchange contracts to hedge foreign exchange exposure.

**Credit risk**

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- amounts due from related entities;
- trade and other receivables;
- cash and cash equivalents; and
- advances and deposits.

The Group limits the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or Groups of counterparties. The Group has no significant concentration of credit risk, and exposure to third parties is monitored as part of the credit control process.

Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash equivalents are placed with financial institutions registered with banks registered in the geographical areas where the Group operates. Banks in Botswana are not rated, but most of the banks concerns are subsidiaries of major South African or United Kingdom registered institutions.

The company applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables that have similar characteristics are Group together and assessed on a collective basis as they possess shared credit risk characteristics. They have been Grouped based on the days past due and also according to the geographical location of customers where applicable.

## Notes to the Consolidated and Separate Financial Statements

**39. Risk management (continued)**

In determining the level of likely credit losses on write-off of trade receivables, the Group has taken cognisance of historical collections from external debt collection processes and delayed settlement arrangements with debtors, as well as the impact which the expected future development of macro-economic indicators (specifically Gross Domestic Product) may have on historical collection and default rates.

Trade receivables are considered irrecoverable where
- the customer has not made any payment within 180 days from the date of invoice (at which stage amounts are considered in full default)
- no alternative payment arrangements have been made and adhered to by the customer during the first 90 days after date of invoice; and
- alternative collection efforts (mainly through external debt collection agencies), initiated once the invoice has been outstanding for more than 90 days, have failed.

On the above basis the expected credit loss for trade receivables as at 30 June 2019 was determined as follows, (refer to note 22).

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is summarised as follows:

| In P'000 | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Trade receivables - net of provision for impairment | 3 315 | 69 292 | - | - |
| Other receivables | 84 013 | 108 331 | - | - |
| Advances and deposits | 82 502 | 80 830 | - | - |
| Amounts due from related entities | 14 956 | 22 425 | 269 413 | 331 256 |
| Bank balances | 190 629 | 90 165 | 474 | 477 |
| | **375 415** | **371 043** | **269 887** | **331 733** |

The ageing of trade receivables (Group) at the reporting date is analysed as follows:

| In P'000 | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Not past due | 4 424 | 20 664 | - | - |
| Past due 1 - 30 days | 1 726 | 7 308 | - | - |
| Past due 30 - 60 days | 1 501 | 4 197 | - | - |
| Past due 61 - 90 days | 167 | 66 939 | - | - |
| Past due more than 90 days | 15 655 | - | - | - |
| Specific debtors | 146 447 | 89 360 | - | - |
| | 169 920 | 188 468 | - | - |
| Provision for impairment | (166 605) | (119 176) | - | - |
| | **3 315** | **69 292** | **-** | **-** |

Trade receivables were evaluated for impairment at the reporting date. The majority of amounts outstanding are with reputable trading entities with no history of default. There was no concentration of credit risk at the current or previous reporting date.

**Reconciliation of provision for impairment of trade and other receivables**

| | | | | |
|---|---|---|---|---|
| Opening balance | 119 176 | - | - | - |
| Provision for impairment | 63 496 | 119 176 | - | - |
| Unused amounts reversed | (16 067) | - | - | - |
| | **166 605** | **119 176** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

### 39. Risk management (continued)

**Liquidity risk**

The Group is exposed to daily operational payments and payment of trade payables and long-term borrowings. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group sets limits on the minimum amounts of maturing funds available to meet such calls and unexpected levels of demand.

The following financial instruments are classified as non-derivative financial liabilities:

| In P'000 | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Long term borrowings | 672 824 | 815 485 | - | - |
| Amounts due to related entities | 118 002 | 42 675 | - | 13 678 |
| Bank overdrafts | 248 155 | 106 448 | - | - |
| Trade payables | 933 702 | 1 164 079 | - | 15 |
| Other payables | 118 405 | 143 045 | 485 | 187 |
| | **2 091 088** | **2 271 732** | **485** | **13 880** |

The following are the contractual maturities of the non-derivative financial liabilities, including estimated interest payments and the impact of netting agreements:

| Group 2019 - In P'000 | Carrying amount | Contractual cash flows | One year | Two to five years | Greater than 5 years |
|---|---|---|---|---|---|
| Long -term borrowings | 672 824 | (764 333) | (87 779) | (676 554) | - |
| Amounts due to related entities | 118 002 | (118 002) | (118 002) | - | - |
| Bank overdrafts | 248 155 | (248 155) | (248 155) | - | - |
| Trade payables | 933 702 | (933 702) | (933 702) | - | - |
| Other payables | 118 405 | (118 405) | (118 405) | - | - |
| | **2 091 088** | **(2 182 597)** | **(1 506 043)** | **(676 554)** | **-** |

| Group 2018 - In P'000 | Carrying amount | Contractual cash flows | One year | Two to five years | Greater than 5 years |
|---|---|---|---|---|---|
| Long -term borrowings | 815 485 | (971 917) | (154 000) | (817 917) | - |
| Amounts due to related entities | 42 675 | (42 675) | (42 675) | - | - |
| Bank overdrafts | 106 448 | (106 448) | (106 448) | - | - |
| Trade payables | 1 164 079 | (1 164 079) | (1 164 079) | - | - |
| Other payables | 143 045 | (143 045) | (143 045) | - | - |
| | **2 271 732** | **(2 428 164)** | **(1 610 247)** | **(817 917)** | **-** |

| Company 2019 - In P'000 | Carrying amount | Contractual cash flows | One year | Two to five years | Greater than 5 years |
|---|---|---|---|---|---|
| Amounts due to related entities | 118 002 | (118 002) | (118 002) | - | - |

**39. Risk management (continued)**

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

## Notes to the Consolidated and Separate Financial Statements

### 40. Fair value information

**Fair value hierarchy**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs in determining these measurements:

Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

| In P'000 | Financial assets mandatorily at fair value | Loans and receivables | Financial assets liabilities at amortised costs | Fair value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Group 2019** | | | | | | | | |
| **Assets** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| **Mandatorily at fair value through profit or loss:** | | | | | | | | |
| Investment in shares | 3 | - | - | - | 3 | - | - | 3 |
| **Financial assets not measured at amortised cost** | | | | | | | | |
| Advances and deposits | - | 82 502 | - | 82 502 | - | - | - | - |
| Trade and other receivables | - | 87 328 | - | 87 328 | - | - | - | - |
| Amounts due from related entities | - | 14 956 | - | 14 956 | - | - | - | - |
| Cash and cash equivalents | - | 190 629 | - | 190 629 | - | - | - | - |
| | **3** | **375 415** | **-** | **375 415** | **3** | **-** | **-** | **3** |
| **Liabilities** | | | | | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | |
| Long-term borrowings | - | - | 672 824 | 672 824 | - | - | - | - |
| Trade and other payables | - | - | 1 055 225 | 1 055 225 | - | - | - | - |
| Amounts due from related entities | - | - | 118 002 | 118 002 | - | - | - | - |
| Bank overdraft | - | - | 248 155 | 248 155 | - | - | - | - |
| | **-** | **-** | **2 094 206** | **2 094 206** | **-** | **-** | **-** | **-** |

## Notes to the Consolidated and Separate Financial Statements

### 40. Fair value information (continued)

| In P'000 | Financial assets mandatorily at fair value | Loans and receivables | Financial assets liabilities at amortised costs | Fair value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Group 2018** | | | | | | | | |
| **Assets** | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | |
| Investment in shares | 3 | - | - | - | 3 | - | - | 3 |
| **Financial assets measured at amortised cost** | | | | | | | | |
| Advances and deposits | - | 93 638 | - | 93 638 | - | - | - | - |
| Trade and other receivables | - | 228 576 | - | 228 576 | - | - | - | - |
| Amounts due from related entities | - | 35 863 | - | 35 863 | - | - | - | - |
| Cash and cash equivalents | - | 187 746 | - | 187 746 | - | - | - | - |
| | **3** | **545 823** | **-** | **545 823** | **3** | **-** | **-** | **3** |
| **Liabilities** | | | | | | | | |
| **Financial liabilities measured at amortised cost** | | | | | | | | |
| Long term borrowings | - | - | 106 730 | 106 730 | - | - | - | - |
| Trade and other payables | - | - | 1 307 124 | 1 307 124 | - | - | - | - |
| Amounts due to related entities | - | - | 42 675 | 42 675 | - | - | - | - |
| Bank overdraft | - | - | 106 448 | 106 448 | - | - | - | - |
| | **-** | **-** | **1 562 977** | **1 562 977** | **-** | **-** | **-** | **-** |

Carrying value is a reasonable approximation of fair value.

| In P'000 | Financial assets mandatorily at fair value | Loans and receivables | Financial assets liabilities at amortised costs | Fair value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Company 2019** | | | | | | | | |
| **Assets** | | | | | | | | |
| **Financial assets measured at amortised cost** | | | | | | | | |
| Amounts due from related entities | - | 269 413 | - | 269 413 | - | - | - | - |
| Cash and cash equivalents | - | 474 | - | 474 | - | - | - | - |
| | **-** | **269 887** | **-** | **269 887** | **-** | **-** | **-** | **-** |
| **Liabilities** | | | | | | | | |
| **Financial liabilities measured at amortised cost** | | | | | | | | |
| Other payables | - | - | 485 | 485 | - | - | - | - |

## Notes to the Consolidated and Separate Financial Statements

### 40. Fair value information (continued)

| In P'000 | Financial assets mandatorily at fair value | Loans and receivables | Financial assets liabilities at amortised costs | Fair value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Company 2018** | | | | | | | | |
| **Assets** | | | | | | | | |
| **Financial assets measured at amortised cost** | | | | | | | | |
| Amounts due from related entities | - | 331 256 | - | 331 256 | - | - | - | - |
| Cash and cash equivalents | - | 477 | - | 477 | - | - | - | - |
| | **-** | **331 733** | **-** | **331 733** | **-** | **-** | **-** | **-** |
| **Liabilities** | | | | | | | | |
| **Financial liabilities measured at amortised cost** | | | | | | | | |
| Other payables | - | - | 202 | 202 | - | - | - | - |
| Amounts due to related entities | - | - | 13 678 | 13 678 | - | - | - | - |
| | **-** | **-** | **13 880** | **13 880** | **-** | **-** | **-** | **-** |

Carrying value is a reasonable approximation of fair value.

### 41. Financial support

Choppies Distribution Centre (Pty) Ltd, a wholly owned subsidiary of Choppies Enterprises Ltd, has pledged its continued financial and operational support to certain subsidiaries of Choppies Enterprises Limited in order for these companies to continue operating as going concerns in the foreseeable future. Each of these companies is technically insolvent with their liabilities exceeding their assets.

The financial support provided by the company will continue for each individual company until such time as the equity and assets, fairly valued, exceed the liabilities for each of the respective individual companies.

Based on the ability of Choppies Distribution Centre (Pty)Ltd to continue providing such support, the individual financial statements of these technically insolvent companies have been prepared on the going concern assumption. The shareholders' deficits at the reporting date for each of the companies are summarised as follows:

| Subsidiary in P'000 | 2019 | 2018 |
|---|---|---|
| Amphora (Pty) Limited | - | - |
| Best Strategy (Pty) Limited* | - | 1 349 |
| Crystal Shine (Pty) Limited* | - | 126 |
| Gliftwood (Pty) Limited* | - | 576 |
| Golden Irish (Pty) Limited* | - | 631 |
| Wolf Lake (Pty) Ltd * | - | 632 |
| Heritic Holdings (Pty) Limited* | - | 306 |
| Highland Haven (Pty) Limited* | - | 167 |
| Kings Rifle (Pty) Limited* | - | 79 |
| Good Track (Pty) Ltd * | - | 276 |
| Maypearl (Pty) Limited* | - | 32 |
| MegaSave (Pty) Limited* | - | 6 898 |
| Monthe Vista (Pty) Limited* | - | 1 554 |
| Ollur Investments (Pty) Limited* | - | 1 358 |
| Smart Buy (Pty) Ltd * | - | 1 320 |

**41. Financial support (continued)**

| **Foreign subsidiaries in P'000** | **2019** | **2018** |
|---|---|---|
| Choppies Supermarkets SA (Pty) Limited | 1 000 908 | 710 562 |
| Choppies Supermarkets Namibia (Pty) Limited | 21 853 | 8 077 |
| Choppies Supermarkets Limited (Zambia) | 97 741 | 48 878 |
| Choppies Supermarkets Tanzania Limited | 8 074 | - |
| | **1 128 576** | **767 517** |

*These subsidiaries were amalgamated on 1 July 2018. Refer to note 15.

**42. Going concern**

The Group and Company annual financial statements have been prepared based on accounting policies applicable to a going concern. This basis assumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Group recorded negative equity of P80.1 million as at 30 June 2019 (2018: positive equity of 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 Zimbabwean 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).

As noted in the above paragraph, the realised losses were mainly from South Africa, Tanzania, Kenya and Mozambique. As a result, the board took a decision to reduce the losses by exiting these operations. Going forward, this is expected to build-up value for the Group as management's focus will be on the profit making operations, namely Botswana, Zambia, Zimbabwe and Namibia, which should help stabilise the Group and increase shareholder's value.

Management and the Board are conscious about the currency translation impact from Zimbabwe. The projections in Zimbabwe indicate that, in their currency, this is a profit making operation but the abrupt changes and volatility in the currency has a huge impact when translating the loan to the holding company (the Company), which is payable in US dollars. In order to rectify this, the Company will be engaging with the Reserve Bank of Zimbabwe in October 2020, the repayment date of the loan, towards the possibility of repatriating the USD loan given by the Company to the Zimbabwe operations. If the Company is successful in obtaining approval for repatriation of the loan, cash flow from Zimbabwe will then flow to the Group which will further improve the cashflows and largely eliminate the unrealized foreign currency losses.

After a difficult period faced by the Group during 2018, the Board has put in place various measures and procedures to improve governance at entity and operational levels. The Board is confident that the Group has the capacity and goodwill to turn the performance around thus become cashflow positive.

The ability of the Group and Company to continue as a going concern is dependent on many factors and indicators. The Board has considered, amongst other, the following relating to financial, operating and legislation towards the assessment of going concern:

**Financial indicators**

- The consolidated and individual subsidiary budgets for the 2021 financial year indicate that all the ongoing operations will be profitable from year 2021 onwards.
- Modelling and stress testing the forecast financial results for the Group and Company for the next five years which indicated improvements in performance going forward.
- Sensitivity and stress tested monthly cash flow projections for the next twelve months to June 2021 and beyond to consider the impact of the working capital and essential capital expenditure;
- The Board has continuous engagements with the lenders to maintain good relationships and are working with them to ensure the current bank facilities are adequate to achieve the budgets;

**42. Going concern (continued)**

- The Board has continuous engagements with the lenders to maintain good relationships and are working with them to ensure the current bank facilities are adequate to achieve the budgets;
- As at June 2019, there are no fixed term borrowings that have matured and the projections do not indicate any challenges in repayment of borrowings in the next twelve months.
- Moreover, in October 2019 the founding shareholders underwrote 100 Million Pula to repay the financiers at Group level.
- The founding shareholders have also provided personal sureties towards the potential future obligations amounting to P72 million in its Kenyan subsidiary with recourse thereafter to the Group;

**Operational indicators**

- The Board has assessed the economic and operational forecast environment in the countries where the ongoing subsidiaries operate. The Zimbabwe situation will continue to be challenging with currency volatility and restrictions on profit repatriation expected to continue. Nevertheless, the operation is profitable in USD terms.
- The impact of the COVID 19 pandemic has been assessed by the Board. The impact on the Group's businesses were limited due to its operations been 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.
- The management team has been enhanced with the appointment of a Deputy CEO and CFO. In addition, the outsourcing of the internal audit function is currently underway.
- The Group has not lost any key supplier or service agreements which are key for generating revenue and profits. The Group is looking to strengthen relationships further and venture into new areas of revenue generation going forward.
- There has been no indication from any supplier to stop their relationship with the Group. The inventory levels are therefore expected to remain at required levels so as to generate the budgeted revenue and achieve customer satisfaction and brand loyalty.
- During 2020, the Group also initiated digital marketing and tele sales. This is expected to present various opportunities in digital platforms which will enhance sales.
- Management is aware of the competition in the market they operate. They are confident to retain and also increase the market share in the coming years through effective service delivery.

**Legislative and other factors**

- Compliance with all laws and regulations applicable to the Group is currently a priority for the Board. All identified risks on compliance are continuously being dealt with and appropriate controls are being put in place to detect and act upon any compliance requirements which might arise.
- The Board is not aware of any key legislative change which can affect the Group going forward.

Consequently, the Board does not expect any material uncertainty over the Company or Group's ability to continue as going concerns in the foreseeable future.

**43. Events after the reporting period**

**43.1** The Board, subsequent to year-end, has decided to sell the businesses of the Group in Tanzania. Management was approached by Majid Al Futtaim Retail (trading as Carrefour) (MAF), to acquire Aura and Mlimani stores and is in possession of 2 letters of intent dated 5th August 2019. Management is also negotiating with another 3rd party to buy the Makumbusho' store and hope to provide a proposal on that transaction in due course. Management is already disposed the remaining store which is Makumbusho to a 3rd party. MAF is offering to buy the assets of the Aura store and Mlimani store for USD 300 000 and USD 700 000, respectively, provided that the Group provide conclusive documentation to the buyer that the lease agreements for these stores are cancelled. Tanzanian management are awaiting bank guarantees from the buyers to initiate negotiation with the landlord towards cancellation of lease and transfer of the same to the buyers.

The Group further faces a potential net liability of US$ 577 663. Mlimani City management (where the region had one store) took custody of the store's assets. Choppies Tanzania has filed a claim against Mlimani City management for an amount of US$ 600 000 which is currently in court.

**43.2** The Group entered into two separate financing agreements to continue financing the operations of Choppies Enterprises Kenya Limited as follows.

**43. Events after the reporting period (continued)**

- In July 2019, Choppies Enterprises Kenya obtained an overdraft facility for KSH 250 million (US$ 2.5 million) to finance working capital for a period of 5 months from I & M Bank Limited in Kenya . Choppies Enterprises Limited issued a corporate guarantee in favour of I & M Bank Limited for the facility, the minority shareholder of Choppies Supermarkets Kenya Limited (Shanta Retail holding) issued Personal Guarantees, and CEL entered in to a share pledge agreement for its 75% shareholding with the minority shareholders against the personal guarantees they issued to I & M bank Limited.
- In August 2019 the Group obtained a short term loan for USD 4 million to further finance the working capital requirements of Choppies Enterprises Kenya Limited from the minority shareholder Shanta Retail Holding Limited. Choppies Enterprises Limited issued a guarantee for the loan and entered into convertible loan agreement with minority shareholder of Shanta Retail Holding Limited on the condition that, the loan amount will be converted in to shares in the event that Choppies Enterprises Limited defaults on repayment when due.

**43.3** In October 2019, the Board decided to close the operations in Kenya and exit the country. All the stores except one is disposed of during the financial year 2020 and the realised amounts have been used to settle the liabilities. Choppies Enterprises Kenya Limited and Choppies Distribution Kenya Limited closed with potential liability of P132 million and 25% of the amount will be borne by the local shareholders. The Board is hopeful to complete the remaining formalities and exit the country by once travel restrictions have been lifted.

The loan from Kenyan local partner mentioned in note 43.2 of 72 Million Pula equivalent is guaranteed by founding shareholders in their personal capacity. If this loan is called before the Group has enough cash to cater for it, founding shareholders have agreed to settle it in their personal capacity and agree suitable terms of repayment with CEL.

**43.4** Choppies Enterprises Limited entered into an agreement during November 2019 whereby Choppies Enterprises Limited sold the entire issued shares in and the loan accounts of Choppies Enterprises Limited against each of its wholly owned subsidiaries Choppies Supermarkets SA Proprietary Limited, Choppies Warehousing SA Proprietary Limited, Choppies Logistics Proprietary Limited and Motopi Holdings SA Proprietary Limited (collectively the SA Subsidiaries). The purchase consideration was ZAR1 for all the issued shares held by Choppies Enterprises Limited in and all the claims of Choppies Enterprises Limited on the loan account against each SA Subsidiary.

In addition, the purchaser undertook to release Choppies Enterprises Limited from guarantees held by it to certain major trade creditors of the SA subsidiaries and lessor creditors and indemnified Choppies Enterprises Limited in respect of any claims under the aforesaid guarantees until these are released. As security therefore the sole director of the purchaser guaranteed the obligations of the purchaser under such indemnity.

Choppies Enterprises Limited also agreed to make good the negative value of equity in the SA Subsidiaries as determined by the application of a prescribed formula to a maximum of ZAR150,000,000, which amount would be advanced by Choppies Enterprises Limited to the SA Subsidiaries in instalments of not less than ZAR15,000,000 per month commencing on the effective date of the sale (the Seller Loan ).The claims of Choppies Enterprises Limited for repayment of the Seller Loan were to be ceded to the Purchaser for ZAR 1.00.

The material condition precedent i.e. the approval of the South African Competition Commission to the acquisition by the Purchaser of the shares in the SA Subsidiaries was forthcoming on the 25th February 2020 which meant that the transaction could move to close on 1st April 2020.

However certain renegotiations took place in terms of which Choppies Enterprises Limited agreed that:
1. The Seller Loan was determined at the maximum of ZAR150,000,000 with two payments of ZAR32,500,000 being payable on 22 April 2020 and the second thereof payable on the 22nd of May 2020 with the balance being paid in instalments of BWP10,000 per month at the end of the month following payment of the second payment of ZAR32,500,000 in May 2020;
2. Choppies Enterprises Limited would pay an additional amount of ZAR14,931,111 to the SA Subsidiaries, as part of the Seller Loan, in respect of creditor obligations disputed by the Purchaser, provided that a maximum liability of ZAR125,000,000 in respect of Seller Warranties stated in the Sale Agreement in respect of the sale and purchase of shares, be reduced by that amount, to ZAR110,608,889;
3. It would indemnify the purchaser in respect of certain claim of creditors of the SA Subsidiaries which were under dispute, Choppies Enterprises Limited taking over control of the dispute and ultimately settlement of the claim of the creditor, if any.

A closing agreement, reflecting the result of the renegotiations was concluded on 21st April 2020 and the provisions for closing of the transfer of shares in and control of the SA Subsidiaries was effected as of 22 April 2020.

The disposal by Choppies Enterprises Limited of the shares in the SA Subsidiaries constituted a category 2 transaction in terms of the BSE Limited Equity Listings Requirements.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**43. Events after the reporting period (continued)**

**43.5** The Board, subsequent to year-end, decided to close the operation in Mozambique and exit from the country. Operations for the only 1 store closed on 30 September 2019 and the plant and machinery were transferred to stores operating in Zambia and an agreement to dispose of buildings is already in place for amount of US$ 1 million, the proceeds from the sale will be used to settle the loan outstanding.

**43.6** Subsequent to year-end the company has initiated court proceedings against Payless Supermarket (Pty) Ltd ("Payless") towards recovered of the amounts owed to the group. As on 3 June 2020, the court has issued an order placing Payless under liquidation and authorising the provisional liquidator to carry on or discontinue any part of the respective business of Payless which in his view is necessary for beneficial winding up of the business and also to sell movable and immovable property of Payless save that such sale shall be subject to the approval of court and/or consent of the creditors sought in a duly authorised meeting.

**43.7** On 28 July 2019, the Fours group of companies instituted proceedings in the High Court of Botswana, in terms of which, the return of the Fours companies shares was demanded. The Company initiated defence against these proceedings requesting the Fours group to honour the repayment of the Payless loan along with any outstanding interest before release of the pledge. During the month of June 2020, the court issued a ruling to state that the shares held as pledge by the Company need to be returned to the Fours group shareholders. The transfer of these shares was affected subsequently. However, the Company has applied for a stay of execution against the court ruling. The Company still retains the pledge on the shares for all the outstanding receivables from Fours group.

**43.8** Shareholders are referred to the opinion by Advocates Hoffman SC and Meyerowitz dated 5 December 2019 ("the Hoffman Opinion") and the opinion by Advocates Redding SC and Meyerowitz dated 6 December 2019 ("the Redding Opinion") placed on XNews and SENS on 11 December 2019, and subsequent update announcements in respect thereof.

The Hoffman Opinion recommended that the Board of the Company undertake a further investigation to determine the veracity of the stock fraud allegations.

The Redding Opinion specified that the form of such investigation may be that of a "Focused Investigation".

Pursuant to the Hoffman and Redding Opinions, the Board through the office of its legal advisor Neill Armstrong ("the Legal Advisor") briefed Advocate Meyerowitz ("Counsel") to undertake a focused investigation of the facts and provide an opinion on whether the allegations of fraud in respect of stock losses and bulk sales were true or otherwise sustainable in a court of law or quasi-judicial setting.

In the brief, Counsel was provided with extensive documentary evidence in addition to the documents furnished to Advocates Hoffman SC, Redding SC and Meyerowitz, for preparation of the Hoffmann and the Redding Opinions.

Counsel in considering the documentation, in particular the Ernst & Young Report (the subject of the Hoffman and Redding Opinions), identified key witnesses.

It was the intention that Counsel would interview such witnesses and take statements from those witnesses, in order to establish the facts in respect of the allegations of fraud in respect of the holding of stock and bulk sales.

With the advent of the Covid-19 pandemic and travel and lockdown restrictions imposed by the governments of South Africa, Botswana and Zimbabwe, Counsel was not able to meet with the witnesses to conduct the intended interview.

After considering the additional evidence provided by the extensive documentary evidence referred to hereinbefore, Counsel issued written interrogatories to each of the identified witnesses through the offices of the Legal Advisor and requested written submissions in response thereto accompanied by appropriate documentary evidence.

Certain of the witnesses identified did respond to the interrogatories and provided additional documentary evidence. In particular the internal auditor to the Company at the time, who raised the issues in respect of stock losses and bulk sales, who it appears did not respond to queries raised by Ernst & Young, did not make available an address to which Counsel's questions to him could be sent.

Counsel has considered all the evidence provided to him and has come to the conclusions that the allegations of fraud in respect of stock in both South Africa and Zimbabwe would not likely succeed in a court of law nor in a formal quasi-judicial setting such as a disciplinary hearing. Counsel is satisfied that the evidence before him (which is almost entirely circumstantial) can do no better than establish equal probability which means that the case of fraud will likely fail on the onus, placed on the entity alleging the fraud.

**43. Events after the reporting period (continued)**

The case for the allegation of fraud in respect of stock in South Africa was that management had orchestrated an elaborate scheme to hide stock losses ostensibly identified by the internal auditor, by using a stock management system called "Rebate SKU" and then pretending to sell 129 million Rands worth of non-existent stock to a purchaser identified in the Report ("the Purchaser"), receiving the money from the Purchaser, then sending the money back to the Purchaser in exchange for the acquisition of four retail stores at artificially inflated prices, the result of the scheme being that the Purchaser pretended to sell the stores at the inflated price of R146 million, but in reality sold the stores at the price of R55 million the artificially inflated portion of the sale price (R91 million) being compensated for with 129 million Rands worth of non-existing stock and another R38 million in smaller fictional transactions. It was alleged that the stock loss would be hidden "on the books" and concealed by the artificially inflated goodwill in the recently purchased stores.

However, the evidence provided suggests that the purchase prices in respect of the purchased stores were not artificially inflated based on the fact that:

- the target stores were producing an annual turnover of R500 million;
- Choppies had recently purchased eight similarly well performing stores using the same "three times average monthly turnover" based price determination;
- Choppies auditors, PricewaterhouseCoopers (" PwC") had conducted due diligences on both of the respective transactions prior to the acquisitions;
- it appears the internal auditor of the Company did not conduct a physical count when he identified the alleged losses but rather identified a variance "on the books" between the stock status report and MIS stock figures;
- in the absence of a physical stock count it is likely that the internal auditor was (based on the evidence of the operations team) mistaken due to the intricacies of the Rebate SKU System; and
- after the bulk sales of the allegedly missing stock, the external auditors at the time, PwC, confirmed that no stock was missing and that all money had been received for the stock.

Counsel comes to the conclusion that the above facts are inconsistent with the purely circumstantial case of fraud in respect of the stock and therefore the inference that fraud in respect of the stock took place cannot be sustained.

Counsel makes the point as to the probabilities even if the allegations were true, no single party would have benefitted from the fraud and it appears the only tangible result thereof would have been to conceal a fractional stock loss of approximately 0.8% of the turnover of the Company which would likely not have affected the share price thereof.

The case for the allegation of fraud in respect of the stock in Zimbabwe was that management had orchestrated a similar scheme to hide stock losses extensively identified by the internal auditor, by using a stock management system called "Grocery SKU" (essentially the same system as the Rebate SKU). In this regard the allegation was that the Zimbabwean subsidiary sold 4.5 million US Dollars worth of non-existent stock over March and April 2018 to various entities without ever receiving money in return and that, in an attempt to hide the fact that no money was received management purported to pay the missing USD 4.5 million to a contractor identified in the Report ("the Contractor") ostensibly in exchange for construction services pertaining to the renovation of various Choppies stores across Zimbabwe. The allegation was that this "payment" did not actually take place and was only ever done on the "books" giving rise to further allegations that the Contractor was paid a non-existent amount for non-existing services which were never rendered.

Counsel is of the view that the evidence suggests that the internal auditor was mistaken on the same basis as in South Africa. Furthermore, the internal auditor appears to have identified 7.3 million US Dollars' worth of missing stock but only USD6 million of that "missing" (Rebate) stock was sold in March and April 2018. The remaining 1.3 million US Dollars' worth of missing stock was actually accounted for by auditors PwC, post the bulk sales, (as was the money was received for the sale of the 6 million US Dollars' worth of Rebate Stock). However, Ernst & Young found that only USD1.5 million of the USD6 million sales had been banked (which itself suggests at least 1.5 million US Dollars' worth of sold Rebate Stock actually existed) but could not find paper trail for the remaining USD4.5 million ostensibly received in cash.

Choppies management produced documentation in support of a claim that the USD4.5 million was indeed received in cash and applied to various legitimate construction projects around Zimbabwe. Counsel was provided with extensive documents regarding these construction projects including invoices, construction plans and photographs of the completed project.

Counsel makes the point again that even if the allegations were true, there is no evidence that any one party personally benefitted from the alleged fraud. If the loss of USD4.5 million worth of stock was fraudulently concealed, it is also doubtful that such a comparatively fractional loss would have had an effect on the holding company share price.

**43. Events after the reporting period (continued)**

Averments in the Ernst & Young Report and evidence provided to Counsel suggests that certain of management staff of the Company "backdated" certain documents pertaining to the targets store acquisition. Counsel is of the view that this appears to have been done to ensure that transaction was recorded in the 2018 financial year, rather than to perpetrate some sort of fraud. Counsel is satisfied that the backdating was not done in pursuant of the allegedly fraudulent stock manipulation in South Africa. Counsel makes that point that he cannot know the consequences of what the backdating might have for the audit responsibility of the Company or towards any third party. Counsel therefore recommends that the Board takes the matter further to establish possible consequences of this backdating (which investigation was beyond the mandate of Counsel's focused investigation). Counsel points that while backdating a document is per se a fraudulent representation the moral and legal liability for doing so depends largely on the consequences of that action. If it turns out that the backdating was for an innocent reason and was without consequence it is likely that such action should attract little more than a reprimand from the Board of the Company.

Counsel has recommended, to ensure the integrity of the process of investigation, that the Report (for this reason entitled a "Preliminary Report") be made available to persons implicated by the Preliminary Report which persons would then be accorded an opportunity of three weeks, post publication of the Preliminary Report, to provide Counsel with relevant evidence which may be new or different, for examination, interrogation and ultimately conclusion as to whether or not such evidence would alter the Preliminary Report.

**Overall risk to operations - Impact of Covid-19 (coronavirus)**

Since December 2019, the spread of COVID-19 has severely impacted many economies around the globe. In many countries, businesses have been forced to cease or limit operations for long or indefinite periods of time. The country of Botswana and certain of the other countries we operate in have introduced measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closure of non-essential services. These measures have triggered significant disruptions to businesses, resulting in an economic slowdown. Governments and Central Banks including the Bank of Botswana, have responded with monetary and fiscal interventions to stabilise economic conditions.

Since the Group trades in essential commodities, it is allowed to continue operating during the lockdown period and therefore the impact of COVID-19 on the group's business is not expected to have a material uncertainty going forward. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2019 have not been adjusted to reflect any impact. The duration and impact of the COVID-19 pandemic currently remains unclear. It is not possible to reliably estimate the duration and severity of these consequences on the economies of the countries we operate in.

The Group has identified several measures available to limit the negative financial impact of COVID-19 on its business, including:

- Cost saving measures, which has been implemented to reduce costs and increase profitability.
- Introducing online sales and other sale processes to enhance customer service delivery considering that the business was declared an essential service during the lockdown period. These are now continuing services.
- Better inventory management processes to ensure appropriate stock levels are maintained for fast moving goods and ensuring sales level are met.

The Group has performed cash flow projections and profitability analysis considering various scenarios and are confident that the available business opportunities and financial support towards working capital will sustain itself as a going concern for a period of not less than 12 months from the approval of these financial statements.

The Group recognises that the COVID-19 pandemic and related disruption to the economy will result in unpredictability of the business environment. The Group has carried out an assessment of the potential disruption of COVID-19 on their business for the 3 months, April May and June 2020 and believe that the group operations could be negatively affected by approximately P190 million in gross sales due to lower economic activity, restriction of movement of people still in place and the closure of borders for non-essential travel during the 3 months. Despite the Group's estimated sales reduction, it still expected to be able to meet all its obligations in the normal course of business in the near future.

The Group will continue to monitor the situation globally and locally and will take all measures to safeguard the interest of stakeholders in a responsible manner. Our goals are to protect the health of our stakeholders and customers by upholding rigorous hygiene standards across our stores, offices and supply chain, and to support the imperative of minimising person-to-person transmission through "social distancing" measures. Special protocols for Choppies drivers of cross border trucks to ensure uninterrupted and regular delivery of imported goods.

## Notes to the Consolidated and Separate Financial Statements

| | Group | | Company | |
|---|---|---|---|---|
| Figures in Pula thousand | 2019 | 2018 | 2019 | 2018 |

**44. Segment report**

Operating segments are identified based on financial information regularly reviewed by the Choppies Enterprises Limited chief executive officer (identified as the chief operating decision maker of the Group for IFRS 8 reporting purposes) for performance assessments and resource allocations.

The Group has four operating segments (2018: four) as described below, which are the Group's strategic divisions. Operating segments are disclosed by geographical regions.

Performance is measured based on the profit before taxation as management believes that such information is most relevant in evaluating the results of the segments against each other and other entities which operate within the retail industry.

Botswana – retail of fast moving consumer goods in Botswana. The business is supported by and includes a warehouse and service companies.

South Africa – retail of fast moving consumer goods in South Africa. The business is supported by and includes a warehousing company. The South African operations were sold during the year 2020.

Zimbabwe – retail of fast moving consumer goods in Zimbabwe. The business is supported by and includes two distribution centres.

Other regions – retail of fast moving consumer goods in Zambia supported by a distribution centre.

Kenya, Tanzania, Mozambique and South Africa regions were discontinued during the financial year 2020.

| SEGMENTAL RESULTS (Figures in 000) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | **Botswana** | **Zambia** | **Zimbabwe** | **Namibia** | **Total for Continued operations** | **South Africa** | **Kenya** | **Tanzania** | **Mozambique** | **Total for Operations discontinued after 30 June 2019** | **Total Group** |
| | | | | | | | | | | | |
| **Statement of profit or loss and other comprehensive Income** | | | | | | | | | | | |
| Revenue : | | | | | | | | | | | |
| Trading income | 4,147,283 | 583,516 | 508,493 | 119,701 | 5,358,994 | 3,740,551 | 440,437 | 55,374 | 24,831 | 4,261,193 | 9,620,187 |
| Other income | 55,006 | 808 | 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 | 33,075 | 52,999 |
| | - | - | - | - | - | - | - | - | - | - | - |
| **Segment EBITDA** | 258,343 | (38,032) | 15,149 | (9,233) | 226,228 | (196,611) | (58,219) | (12,537) | 1,436 | (265,930) | (39,702) |
| | - | - | - | - | - | - | - | - | - | - | - |
| Segment Depreciation/Amortisation | 90,884 | 12,939 | 6,288 | 3,454 | 113,566 | 94,674 | 13,687 | 1,513 | 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 | 17,050 | 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) | (46) | (26) | (4,171) | - | (4,243) | (26,840) |
| | - | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - | - |
| **Segment profit/(loss) after taxation** | 68,780 | (50,974) | 2,041 | (12,863) | 6,984 | (306,622) | (95,295) | (18,220) | (15,539) | (435,676) | (428,692) |
| | - | - | - | - | - | - | - | - | - | - | - |
| **Statement of financial position** | - | - | - | - | - | - | - | - | - | - | - |
| Segment assets | 906,982 | 167,469 | 173,599 | 55,755 | 1,303,806 | 693,428 | 152,812 | 13,381 | 23,694 | 883,315 | 2,187,121 |
| Segment liabilities | 1,327,897 | 87,166 | 49,016 | 16,072 | 1,480,151 | 581,620 | 170,704 | 10,360 | 24,432 | 787,119 | 2,267,269 |

| SEGMENTAL RESULTS (Figures in 000) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | **Botswana** | **Zambia** | **Zimbabwe** | **Namibia** | **Total for Continued operations** | **South Africa** | **Kenya** | **Tanzania** | **Mozambique** | **Total for Operations discontinued after 30 June 2019** | **Total Group** |
| | | | | | | | | | | | |
| **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 | 4,515,289 | 10,845,100 |
| | - | - | - | - | - | - | - | - | - | - | - |
| Segment gross profit | 939,051 | 66,060 | 267,946 | 5,270 | 1,278,327 | 715,662 | 61,678 | 2,697 | 4,053 | 784,090 | 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) | (13,256) | 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 |

# Shareholder Analysis

| No | Shareholder Spread | Number of shareholders 2019 | % of total shareholdings | Number of Shares | % of shares issued |
|---|---|---|---|---|---|
| 1 | 1-1000 | 4,742 | 59.55 | 1,968,423 | 0.15 |
| 2 | 1001-10 000 | 2,319 | 29.12 | 8,829,580 | 0.68 |
| 3 | 10 001-100 000 | 706 | 8.87 | 19,959,149 | 1.53 |
| 4 | 100 001-1000 000 | 132 | 1.66 | 45,043,723 | 3.46 |
| 5 | Over 1 000 000 | 64 | 0.80 | 1,227,827,466 | 94.19 |
| | **TOTAL** | **7,963** | **100.00** | **1,303,628,341** | **100.00** |

| No | Distribution of Shareholders | Number of shareholders | % of total shareholdings | Number of shares | % of shares issued |
|---|---|---|---|---|---|
| 1 | Companies | 163 | 2.05 | 41,926,550 | 3.22 |
| 2 | Share scheme | 1 | 0.01 | 12,000,000 | 0.92 |
| 3 | Individuals | 7,679 | 96.43 | 143,825,271 | 11.03 |
| 4 | Institutional Investors | 110 | 1.38 | 651,139,067 | 49.95 |
| 5 | Directors | 10 | 0.13 | 454,737,453 | 34.88 |
| | Total | **7,963** | **100.00** | **1,303,628,341** | **100.00** |

| No | Shareholders type | Number of shareholders | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|---|
| 1 | Non-public shareholders | 11 | 0.14 | 466,737,453 | 35.80 |
| 2 | Directors | 10 | 0.13 | 454,737,453 | 34.88 |
| 3 | Share schemes | 1 | 0.01 | 12,000,000 | 0.92 |
| 4 | Public shareholders | 7,952 | 99.86 | 836,890,888 | 64.20 |
| | **Total** | **7,963** | **100** | **1,303,628,341** | **100** |

| No | Directors | Number of shares held 2019 | Percentage of holding 2019 |
|---|---|---|---|
| 1 | Ramachandran Ottapathu (including indirect holdings) | 254,797,524 | 19.55 |
| 2 | Farouk Ismail (including indirect holdings) | 199,939,929 | 15.34 |
| | **Total** | **454,737,453** | **34.88** |

**TOP 10 SHAREHOLDERS**

**Choppies share register 30 June 2019**

| No | Name of top 10 shareholders 2019 | Number of shares held 2019 | Percentage of holding 2019 |
|---|---|---|---|
| 1 | RAMACHANDRAN OTTAPATHU | 254,797,524 | 19.55 |
| 2 | FAROUK ISMAIL | 199,939,929 | 15.34 |
| 3 | ALLAN GRAY | 191,340,156 | 14.68 |
| 4 | FNB BOTSWANA NOMINEES (PTY) LTD RE:AA BPOPF EQUITY | 136,498,238 | 10.47 |
| 5 | MARINA IV L.P | 131,291,985 | 10.07 |
| 6 | BOTSWANA INSURANCE FUND MANAGEMENT | 49,268,481 | 3.78 |
| 7 | STANDARD PRIVATE EQUITY (MAURITIUS) | 29,723,816 | 2.28 |
| 8 | GOVERNMENT EMPLOYEES PENSION FUND | 27,672,645 | 2.12 |
| 9 | FESTUS GONTEBANYE MOGAE | 19,748,188 | 1.51 |
| 10 | INVESTEC ASSET MANAGEMENT | 12,451,626 | 0.96 |
| | **TOTAL** | **1,052,732,588** | **80.75** |

# General Information

| | |
|---|---|
| **Country of incorporation and domicile** | Botswana |
| **Nature of business and principal activities** | Retail sales - supermarket |
| **Directors** | Carol Jean Harward (Appointed 4 September 2019)<br>Farouk Essop Ismail<br>Ramachandran Ottapathu<br>Tom Pritchard (Appointed 4 September 2019)<br>Uttum Corea (Appointed 9 September 2019)<br>Dorcas Ana Kgosietsile (Resigned 4 September 2019)<br>Heinrich Mathiam Stander (Appointed 15 December 2018 and resigned 4 September 2019)<br>His Excellency Festus Gontebenye Mogae (Resigned 4 September 2019)<br>Robert Neil Matthews (Resigned 19 February 2019)<br>Ronald Tamale (Appointed 13 December 2017 and resigned 4 September 2019)<br>Sanooj Pullarote (Resigned 15 December 2018)<br>Sydney Alan Muller (Resigned 22 October 2018)<br>Wilfred Victor Mpai (Appointed 22 November 2018 and resigned 4 September 2019) |
| **Registered office** | Plot 50371<br>Fairgrounds Office Park<br>Gaborone<br>Botswana |
| **Business address** | Plot 169<br>Gaborone International Commercial Park<br>Gaborone<br>Botswana |
| **Postal address** | Private Bag 00278 Gaborone Botswana |
| **Bankers** | Absa Bank South Africa Limited<br>Absa Bank Kenya Plc<br>Absa Bank Mozambique SA<br>Absa Bank of Tanzania Limited<br>Absa Bank Zambia Plc<br>Absa Bank of Botswana Limited<br>Absa Bank of Zimbabwe Limited<br>Bank of Baroda (Botswana) Limited<br>Bank Gaborone Limited<br>Capital Bank Botswana Limited<br>Central African Building Society ("CABS") Limited<br>Diamond Trust Bank Limited<br>FBC Bank Limited<br>First National Bank (South Africa) Limited<br>First National Bank Botswana Limited<br>Nedbank South Africa Limited<br>Stanbic Bank Botswana Limited<br>Standard Bank Limited; Standard Bank South Africa Limited<br>Standard Chartered Bank Botswana Limited<br>Standard Chartered Bank Kenya Limited<br>Standard Chartered Bank Limited<br>Steward Bank Limited<br>ZB Bank Limited |

| | |
|---|---|
| **Auditors** | Mazars (Appointed on 17 February 2020)<br>Certified Auditors<br>Plot 139<br>Gaborone International Finance Park<br>Gaborone<br>Botswana |
| **Secretary** | DPS Consulting Services (Proprietary) Limited (Appointed 29 November 2019)<br>Corporate Services (Proprietary) Limited (Resigned 29 November 2019) |
| **Presentation and functional currency** | Botswana Pula |


CHOPPIES

**Registered office:**

Choppies Enterprises Limited
Plot 50371 Fairgrounds Office Park
Gaborone, Botswana

**Physical and postal address:**

Choppies Enterprises Limited
Plot 169, Gaborone International
Commerce Park, Gaborone
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