

## **AFRISTRAT INVESTMENT HOLDINGS LIMITED**

Incorporated in the Republic of South Africa

Registration number: 1998/013215/06

JSE Code: ATI - ISIN: ZAE000287587

Debt Issuer Code: ATID

Hybrid Issuer Code: ATIG

("Afristrat" or "the Company")



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### **Business update on legal actions, Event of Default, proposed debt restructuring, rationale for a capital raise and Cautionary Announcement**

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The board of directors of the Company ("**the Board**") wishes to provide an update on matters of the business, pertaining specifically to legal actions, a proposed debt restructuring and rationale for a capital raise.

#### **Legal Action**

Over the past two years and as part of the Company's restructuring process over this period, Afristrat has completed two forensic investigations and initiated a further forensic investigation conducted by MyBucks S.A. (a company incorporated under the Laws of the Grand Duchy of Luxembourg and hereafter referred to as "**MyBucks**") and in which Afristrat owns a 42.39% stake, regarding:

- The inappropriate use and distribution by the former CEO of the Company ("**Former CEO**") of a significant part of a USD10 million loan financing facility provided to the Company by SATF (a United Kingdom based debt provider), which use and distribution was not approved by the Board and resulted in a significant loss to the Company while the indebtedness to SATF has remained ("**SATF Investigation**").
- The implementation by the Former CEO of a ZAR100 million investment by the Company into a preference share structure of VSS Financial Services Proprietary Limited ("**VSS**"), a wholly owned subsidiary of MyBucks registered in South Africa, in a manner inconsistent with the approved Board position at the time, which resulted in a total loss by the Company of this amount ("**VSS Preference Share Investigation**").
- The further investigation into the activities of VSS, being the ultimate recipient of diverted funds being borrowed from the Company by MyBucks' subsidiaries in South Africa and Eswatini under misrepresentation of growing the MyBucks loan book in South Africa and Eswatini ("**VSS Investigation**").

Details of the aforementioned investigations have been published in various SENS announcements and are set out in paragraph 18 of the circular distributed to ordinary and preference shareholders dated 13 December 2021 regarding, *inter alia*, the proposed related party acquisition by Afristrat of MHMK Financial Services Limited ("**MHMK Financial Services**").

Further to the above forensic investigations:

- Getbucks Zambia Proprietary Limited ("**Getbucks Zambia**") has further initiated a forensic investigation to establish how the funding raised from Mintos from 2017 was utilised. The investigation is focusing on whether the funds raised from Mintos were utilised in terms of the funding agreements with Mintos and/or utilised in the best interests of Getbucks Zambia. This investigation is ongoing.
- FirstCred Limited (Previously Getbucks Limited Botswana) has further initiated a forensic investigation to establish how the funding raised through its BWP500million Bond Programme in 2017/2018 was utilised. The investigation is focusing on whether the funds

raised on the Bond Programme were utilised in terms of the Bond Programme Memorandum or whether the funds were irregularly disbursed to MyBucks or its related entities and never repaid back to FirstCred Limited in cash. This investigation is ongoing.

In addition to the aforementioned VSS Investigation, the MyBucks board of directors ("**MyBucks Board**") completed an internal compliance review into the historical activities of MyBucks and certain of its subsidiaries which triggered the Preference Share Conversion by the Company in May 2020 ("**MyBucks Compliance Review**"). Some of the key findings from the MyBucks Compliance Review are as follows:

- Certain key founding shareholders of MyBucks monetised their shareholding in MyBucks (without disclosure to the MyBucks Board or the Frankfurt Stock Exchange where MyBucks was listed, as would have been in line with good corporate governance procedures) via borrowings from their related companies in South Africa and Botswana obtained from the Company against these shares, for an estimated aggregated amount of EUR22 million, and eventually defaulted on these loans. Subsequent settlement of these loans was done with the pledged MyBucks shares to the Company at a price per MyBucks share that ranged between EUR10 – EUR15 between 2015 – 2018. However, MyBucks was subsequently found to be in a negative equity position of approximately EUR42 million as at 30 June 2019.
- Approximately EUR28 million of Afristrat funds were borrowed by MyBucks' subsidiaries in Botswana, Eswatini and South Africa under the pretext of growing the MyBucks loan book. However, less than EUR10 million was applied towards this, and the balance was diverted by the MyBucks management and spent on overheads and interest expenses without clear disclosures to and approval from the MyBucks Board, thus negatively compounding the financial viability of MyBucks.
- Approximately EUR15 million was borrowed from Mintos, a European lender to MyBucks' subsidiaries in Botswana, South Africa and Zambia under the pretext of growing the MyBucks loan book. However, the bulk of this amount was diverted by MyBucks management and spent on overheads and interest expenses without clear disclosures to and approval from the MyBucks Board, which negatively compounded the financial viability of MyBucks.
- Approximately EUR5 million was borrowed from Norsad by a MyBucks subsidiary in Mauritius for on lending to another MyBucks subsidiary, MBC Mozambique. However, the funds were converted into equity without the approval of the lenders and/or the MyBucks Board which created a severe liquidity mismatch that negatively compounded the financial viability of MyBucks.

Ultimately, Afristrat lost in excess of ZAR1.5 billion of equity value in MyBucks and its subsidiaries through debt which was provided under the pretext of growing the MyBucks loan book. However, as detailed above, such debt was substantially diverted to meet MyBucks management overheads and interest expenses from other borrowings being converted into equity in MyBucks.

Following engagement with its legal advisors, the Board wishes to advise on the actions taken in respect of the aforementioned investigations:

- Based on the recommendation of the legal advisors on the SATF Investigation and the VSS Preference Share Investigation, the Board has given instructions to its attorneys in South Africa and Botswana to institute civil claims in the amount of R250 million against the responsible former executives at the Company and/or MyBucks.
- Based on the recommendation of the VSS Investigation and the MyBucks Compliance Review, the Board has instituted a ZAR800 million claim against MyBucks. Due to the complexities of Luxembourg laws and cost of litigation, the Board is currently considering

its options in order to potentially also institute civil claims against the previous management, directors and auditors of MyBucks, where considered appropriate.

### **Event of Default and Debt Restructuring Initiative**

Prior to the acquisition of MHMK Financial Services, the Company's liabilities included:

- ZAR881.5 million related to various debt instruments ("**Legacy Debt Instruments**"), including fixed rate, floating rate and zero-coupon notes ("**Notes**") issued under the Company's ZAR10 billion domestic medium term note programme dated 21 August 2018 ("**Programme Memorandum**") in the amount of ZAR174.1 million, with the majority of remaining balance consisting of other financial liabilities and creditors; and
- ZAR521 million related to hybrid preference shares ("**Preference Shares**").

The Board has performed a comprehensive review of its ability to continue to service these debt and hybrid instruments which considered, *inter alia*:

- the bankruptcy of MyBucks and subsequent court-appointed Receiver assuming full control of MyBucks, as announced on SENS on 16 February 2022 and 23 February 2022, respectively;
- the ongoing monthly costs required to service its debt instruments considering the lost value of previously invested funds;
- the ability of the Company to raise new equity or debt funding to fund the growth of its underlying remaining investments given the current remaining on-balance sheet debts;
- ongoing negotiations with a number of institutional debt holders;
- the ability of Afristrat's remaining underlying investee companies to provide liquidity to Afristrat to service its debts; and
- Afristrat's ability to timeously rebuild its remaining underlying investee companies in order to service upcoming future debt capital redemptions.

Based on this assessment, the Board has concluded that:

- Afristrat will be unable to pay any interest or capital due and payable to holders of Notes with effect from the date of this announcement which, in terms of Condition 16 of the Programme Memorandum will constitute an Event of Default;
- Interest will however, continue to accrue in respect of the Notes up until the date of approval of the offers detailed below:
- Afristrat will make an offer to current holders of Legacy Debt Instruments to convert to ordinary shares in Afristrat, including the holders of the Notes, but excluding:
  - Trade creditors; and
  - the recently announced Crosscorn acquisition finance;
- Afristrat will make an offer to current holders of Preference Shares to convert to ordinary shares in Afristrat.
- The offers are subject to the approvals of the conversion into ordinary shares in Afristrat by, *inter alia*, the holders of the Notes and the Preference Shares, as well as the approvals by shareholders of the issue of ordinary shares.

The Board believes the aforementioned offers will provide the Company with the most viable position to recover from the lost investment value and put the Company in a position to provide a sustainable basis, both from a solvency and liquidity position, to rebuild value for all stakeholders.

Details of the offer process, including details regarding the meetings of ordinary shareholders, Noteholders and Preference Shareholders to obtain the requisite approvals pursuant to the offers, as the case may be, will be published on SENS in due course.

### **Capital Raise**

The Board refers to the Going Concern disclosures set out in the Company's Annual and Interim Reports for the last two years which indicated that the Group faced severe liquidity constraints and that the auditors had provided a material uncertainty related to the liquidity position of the Afristrat group.

In order to address the liquidity constraints, and together with the Debt Restructuring Initiative, the Board wishes to advise that it will commence a Capital Raise process to raise R60 million of cash funding from its current shareholder base, in order to:

- settle long outstanding creditors with an approximate value of ZAR25 million, a number of which have already commenced legal actions against Afristrat;
- provide working capital to support the requirements for the next twelve months and to support legal costs for the legal actions initiated, amounting to approximately ZAR15 million; and
- provide ZAR20 million of funding in order to support and provide a catalyst for the growth of the underlying remaining investments of Afristrat.

The Capital Raise process will be performed through a private placement book build process under the Company's general authority to issue shares for cash approved by shareholders at the annual general meeting of 5 November 2021, which shares will be issued at no greater than a 10% discount to the 30-day VWAP. Afristrat's largest shareholder, MHMK Group Limited, will underwrite up to ZAR15 million of the ZAR60 million on a pro-rata basis to support the Capital Raise process.

The Capital Raise process will include Investor Roadshows, details of which will be announced on SENS in due course.

### **Cautionary announcement**

Shareholders are advised that the outcome of the above restructuring initiatives may have a material effect on the price of the Company's securities and accordingly, are advised to exercise caution in dealing in the Company's securities until a further announcement is made.

For more information about this announcement or the Afristrat group, email [investor.relations@afristrat.ltd](mailto:investor.relations@afristrat.ltd) or visit [www.afristrat.ltd/investor-relations/](http://www.afristrat.ltd/investor-relations/)

12 May 2022  
Pretoria

### **Sponsor**

Merchantec Capital