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# ZAMBEEF | Disposal of Sinazongwe Farm for USD10 million (LuSE)

September 17th, 2019

Zambeef, the fully integrated cold chain food processing and retailing group with operations in Zambia, Nigeria and Ghana, announces that, in line with its strategy of focussing on its core business, disposing of low-performing and/or non-core assets and reducing gearing/debt, it has entered into a binding Sale and Purchase Agreement ("SPA") with Chenguang Biotech (Zambia) Agri-Dev Limited ("Chenguang") for the sale, subject to the fulfilment of certain conditions precedent, of Zambeef's Sinazongwe Farm for a cash consideration of USD10 million (the "Transaction"). The key terms of the Transaction are summarised below:

**1. Purchase Price:** USD10m

**2. Properties/Farm:**

- a. Remaining Extent of Farm No. 4906 (R/E of F4906) with an area of c.2,521 Ha;
- b. Lot No. 18835/M with an area of c.3 Ha;
- c. Lot No. 18836/M with an area of c.5 Ha.

**3. Excluded Assets:**

The Transaction excludes the following assets:

- a. Crops growing and/or stored on the Farm;
- b. Feedlot and Abattoir (c.20 Ha), which will separately be sub-divided and remain in the name, title and ownership of Zambeef;
- c. Plant, equipment and machinery relating to the Feedlot and Abattoir.

**4. Payment Terms:**

- a. On signing the SPA – a Deposit of 10 per cent. (USD1m) of the Purchase Price ("Deposit");
- b. Balance of 90 per cent. (USD9m) to be paid on or around the Completion Date.

**5. Completion Date:**

- a. On or before 15 March 2020;
- b. Such other Completion Date as may be mutually agreed in writing by the parties.

**6. Conditions Precedent:**

**a. Zambeef Conditions Precedent:**

- i. Sub-division of the Feedlot and Abattoir (c.20 Ha) from the R/E of F4906;
- ii. Obtaining state consent to assign the Properties – subject to receiving Chenguang's Zambia Development Agency ("ZDA") investment license;
- iii. To the extent necessary, Zambeef shall notify and obtain the requisite approvals from the Lusaka Securities Exchange and the Zambian Securities and Exchange Commission;
- iv. To the extent necessary, Zambeef shall obtain the consent of its lenders to effect the Transaction;
- v. Zambeef shall obtain shareholder approval for the Transaction (further details disclosed later in this announcement);
- vi. Discharge the Deg-Deutsche Investitions-Und Entwicklungsgesellschaft Mbh ("DEG Mortgages") over the Properties/Farm;
- vii. Approval of the Transaction by CDC Group plc;
- viii. Approval of the Transaction by the Board of Zambeef.

**b. Chenguang Conditions Precedent:**

i. Chenguang shall obtain an investment license from the ZDA.

**c. Joint Zambeef/Chenguang Conditions Precedent:**

i. Competition and Consumer Protection Commission ("CCPC") provides either negative clearance or approval to the Transaction, or if conditional approval is obtained, that the parties accept such conditions in writing within 14 days of receipt of CCPC's notification.

**7. Non-Completion:**

If the Transaction fails to complete for any reason by either party, then the Transaction will be cancelled and Zambeef shall refund the USD1m Deposit without any interest. The refund shall not apply to Chenguang's 50 per cent. share of costs relating to Zambia Revenue Authority Property Transfer Tax ("ZRA PPT") and CCPC fees.

**8. Other Key Terms:**

- a. CCPC fees shall be borne equally by both parties.
- b. ZRA PPT shall be borne equally by both parties.
- c. On signing the SPA and payment of the USD1m Deposit, Zambeef shall permit Chenguang to utilise three houses (identified by Zambeef) and access to one centre pivot of approximately 80 hectares of land to enable Chenguang to commence with initial research, planning, design and mapping works on its farming project (including conducting trials).
- d. Vacant possession of the Farm shall be given to Chenguang on the Completion Date.
- e. From the Completion Date to 31 May 2020, Chenguang shall permit Zambeef to make free and unfettered use of the silos, weighbridge, selected houses and selected (mutually agreed) plant, equipment and machinery for the purpose of harvesting and storing approximately 7,500 M.T. of soya beans and maize harvested from the Farm.
- f. Chenguang undertakes that it will retain and re-employ all local Zambian staff from the Completion Date and in this regard, on or before the Completion Date, Zambeef will lawfully terminate the employment of all the employees on the Farm. Zambeef shall pay all wages & terminal benefits due to the employees.
- g. Chenguang undertakes to grant Zambeef free and unfettered use of up to 200,000 litres of water per day for use on Zambeef's Feedlot and Abattoir.

*Rationale for disposal and use of proceeds*

The Group has four farming estates/blocks, as detailed in the table below:

<b>Farm Name</b>	<b>Total Land Area (Ha)</b>	<b>Irrigated Land (Ha)</b>	<b>Rainfed Land (Ha)</b>	<b>Total Developed Arable Land (Ha)</b>
Mpongwe Farm	46,813.3	3,343.5	7,622.3	10,965.8
Chiawa Farm	8,209.4	2,152.0	–	2,152.0
Sinazongwe Farm	2,549.8	1,815.0	100.0	1,915.0
Huntley Farm	1,716.0	662.0	1,054.0	1,716.0
<b>Total Land Area (Ha)</b>	<b>58,234.5</b>	<b>7,972.5</b>	<b>8,776.3</b>	<b>16,748.8</b>

Mpongwe Farm is situated in the Copperbelt Province of Zambia, approximately 120 km south-west of Ndola. The farm was acquired by Zambeef in 2011 for approximately USD47m.

Chiawa Farm is located in the southern Zambezi valley of Zambia, at the convergence of the Kafue and Zambezi Rivers, approximately 10 km north-east of Chirundu town. The farm was acquired by Zambeef in 2009 for approximately USD6m.

Sinazongwe Farm is located in the southern Zambezi valley of Zambia, along the northern shore of Lake Kariba, approximately 70 km south-east of Choma town. The farm was acquired by Zambeef in 2003 for approximately USD2.3m.

Huntley Farm is located in the Chisamba District, approximately 55 km north of the capital, Lusaka.

Sinazongwe Farm is made up of three land parcels (title deeds) comprising a total land area of approximately 2,549.8 Ha. of which approximately 1,815 Ha is developed, arable land under irrigation. The main crops grown

on the Farm are soya beans (November to March) and wheat (April to September).

For the FYE September 2018, Sinazongwe Farm:

- a. generated negative EBITDA of USD0.3m;
- b. was valued at USD10.3m, accounting for 4 per cent. of Group net asset value; and
- c. accounted for 1.7 per cent. of Group revenues.

Sinazongwe Farm is not a significant part of our cropping business; for the FYE September 2018, the farm accounted for:

- a. 11 per cent. of Zambeef's total developed arable cropping land;
- b. 11 per cent. of Zambeef's total cropping grain production; and
- c. 9 per cent. of Zambeef's total cropping revenue.

This disposal of Sinazongwe Farm is in line with the Group's strategy of focusing on its core business of the production and retailing of cold chain meat and dairy products and stockfeed.

Furthermore, the Group's largest, most efficient and most profitable farming estate is Mpongwe Farm, and, as mentioned in the Chief Executive Officer's Review in the 2018 Annual Report, Zambeef has been actively seeking buyers for its Chiawa and Sinazongwe Farms.

Finally, the need to have four farming estates very far apart from each other is costly, inefficient and administratively cumbersome.

The Sinazongwe sale proceeds will be used to pay down the Group's debt and thus reduce gearing and interest costs. Net proceeds (after payment of various regulatory and other professional fees/costs) are expected to be c.USD9.25m.

#### *Categorisation of the Transaction on the Lusaka Stock Exchange*

The Transaction is classified as a Category 1 transaction in terms of Section 9 of the Lusaka Securities Exchange ("LuSE") Listings Requirements. As a result, this Transaction will require formal approval by Zambeef shareholders. Accordingly, the Company has commenced work on a circular to be posted to shareholders to convene the necessary extraordinary general meeting of the Company to approve the Transaction. Approval of the Transaction requires a simple majority of Zambeef shareholders to vote in favour. Further updates will be made as and when appropriate.

#### **Dr. Jacob Mwanza, Chairman of Zambeef, commented:**

*"This Transaction is in line with and a continuation of the Group's strategic vision, which will allow Zambeef to focus on growing its core business, which is the production and retailing of cold chain meat and dairy products and stockfeed, delivered through the Group's extensive processing, distribution and retail network. Furthermore, the Transaction will allow Zambeef to continue to reduce its overall gearing, and in so doing, reduce interest costs."*

For more information, please visit [www.zambeefplc.com](http://www.zambeefplc.com) or contact:

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#### **Notes to the editors**

The Zambeef Group is one of the largest integrated cold chain food producers in Zambia, involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, eggs, dairy products, fish, flour and

stock feed. The Group also has large cereal row cropping operations (principally maize, soya beans and wheat), with approximately 7,973 hectares of row crops under irrigation, which are planted twice a year and a further 8,776 hectares of rain-fed/dry-land crops available for planting each year.

Chenguang Biotech (Zambia) Agri-Dev Limited is a subsidiary of the Chenguang Biotech Group Co. Limited based in China ("CCGB"). CCGB is a listed company on the Shenzhen stock exchange with 22 subsidiary companies. The Chenguang Group is one of the worlds leading producers and suppliers of natural plant extraction for paprika oleoresin, capsicum oleoresin and marigold oleoresin. The Chenguang Group also manufactures natural pigments, natural spice extracts, essential oils, natural nutrient and medicinal extracts and protein.

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