

## 9. UNRECOGNISED ITEMS

### 9.1 Commitments

#### Future operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|                                    | 2019<br>R'000  | 2018<br>R'000  |
|------------------------------------|----------------|----------------|
| <b>Premises</b>                    |                |                |
| Payable within one year            | 51 575         | 28 932         |
| Payable in two to five years       | 131 363        | 88 398         |
| Payable in greater than five years | —              | —              |
|                                    | <b>182 938</b> | <b>117 330</b> |

### 9.2 Subsequent events and going concern

#### Disposals

The Blue Label Group has consistently generated positive cash flows from its trading operations since its listing. These funds have been applied to dividend distributions, share buy-backs and investing activities, at all times ensuring sufficient surplus funds to facilitate working capital requirements. Over the past two years significant investments were made, necessitating an increase in interest-bearing debt in order to ensure that working capital requirements remained intact. Accordingly, the Board of Directors have made a decision to deleverage the business in order to ensure a more robust and liquid balance sheet going forward. This deleveraging will be achieved through the disposal of certain assets, as reflected in subsequent events below, the proceeds of which will amount to approximately R1.07 billion. The disposal thereof will not have a negative impact on the extensive distribution network that Blue Label has established and will not inhibit its distribution capabilities nor on its strategic objectives going forward. These funds will be applied to reduce current interest-bearing debt.

#### Blue Label Mobile restructure and disposal

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Viamedia Proprietary Limited (Viamedia), Airvantage Proprietary Limited (Airvantage) and AV Technology Limited (AV Technology). Prior to the restructure, BLT owned 100% of Cellfind, 60% of Airvantage, 60% of AV Technology and 75% of Viamedia. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Viamedia. In terms of the restructure, BLT exchanged its shares in Cellfind, Viamedia, Airvantage and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile Group Proprietary Limited (BLM). Malik thereafter exchanged its 25% shareholding in Viamedia for 10.49% in BLM. Following this, Malik subscribed for a further 4.51% in BLM for R34 million, increasing its shareholding in BLM to 15% with BLT owning the remaining 85%. BLT retains all of the existing rights and obligations with respect to the remaining put and/or call options on 40% of the shares in Airvantage and AV Technology (refer to note 3.7).

Subsequent to the restructure, BLT assigned its rights and obligations to acquire 50% of Hyve Mobile Proprietary Limited (Hyve) to BLM. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R47 million plus interest of R1.3 million has been paid. On payment of the balance of R33 million, BLM's 50% holding in Hyve will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. BLM has a call option to acquire a further 25% of Hyve, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million.

Post-year-end, BLT entered into an agreement to dispose of its 85% shareholding in BLM as well as its 51% shareholdings in Simigenix Proprietary Limited (Simigenix) and Panacea Proprietary Limited (Panacea), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which BLM has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be as follows:

- R350 million plus the amounts BLT have disbursed for the acquisition of 50% of Hyve as at the transaction closing date; and
- R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

# Notes to the Group annual financial statements continued

For the year ended 31 May 2019

## 9. UNRECOGNISED ITEMS continued

### 9.2 Subsequent events continued

#### Blue Label Mobile restructure and disposal continued

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of BLM, BLT will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage and AV Technology, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to BLM. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency is never proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer an additional 24% of the issued share capital of Airvantage and AV Technologies to BLT, resulting in BLT ownership of these entities amounting to 64%.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be payable to BLT plus the cost of the 40% put option shares that will be transferred to BLM.

#### Disposal of 3G Mobile

Post year-end 3G Mobile Proprietary Limited (3G) will distribute its shares in Comm Equipment Company (CEC) and 3G's loan account claim against CEC to its shareholder, TPC. The latter will thereafter dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million. The above proceeds received will be applied to reduce interest-bearing debt.

#### Cell C R1.4 billion financial guarantee

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC is required to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As at 31 May 2019, the above funding declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. Post-year-end, the financial institutions have agreed to extend the repayment date to 30 November 2019. If Cell C is unable to meet this commitment by that date, and no further extension is granted, BLT will be required to purchase R100 million of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020.

#### Banking facility

In August 2019, The Prepaid Company concluded an addendum to its facilities agreement with Investec Bank Limited in terms of which the facility was increased by R150 million.

#### Going concern

The Board of Directors have evaluated the going concern assumption as at 31 May 2019 and considered it to be appropriate in the preparation of these financial statements.

The Prepaid Company's Investec banking facilities, which would have expired on 30 September 2019, have been extended to 29 November 2019 and discussions are in progress for a further extension beyond that date.

As at the date of these financial statements, the renegotiation of these facilities had not yet been completed, and although the directors are of the opinion that the facilities would be extended beyond November 2019, material uncertainty exists should these facilities not be extended. In this event, certain liabilities within the Group would not be settled in the normal course of business.

The directors are confident that the successful completion of the transactions, as detailed in the subsequent events above, will result in a significant reduction in interest-bearing debt and in turn the strengthening of the Group's balance sheet.