

SENS ANNOUNCEMENT
(the “Notice” or “Announcement”)

ISSUER



Company registration number : 67813
Share Code : MFIN
ISIN : ZM0000000391
Authorised by : Kafula Mwiche – Company Secretary

SPONSOR



Stockbrokers Zambia Limited

[Member of the Lusaka Securities Exchange]

[Regulated and licensed by the Securities and Exchange Commission of Zambia]

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APPROVAL

The captioned Notice or Announcement has been approved by:

- i. the Lusaka Securities Exchange
- ii. the Securities and Exchange Commission of Zambia
- iii. Stockbrokers Zambia Limited

RISK WARNING

The Notice or Announcement contained herein contains information that may be of a price-sensitive nature.

Investors are advised to seek the advice of their investment advisor, stockbroker, or any professional duly licensed by the Securities and Exchange Commission of Zambia to provide securities advice.

ISSUED: 24 December 2020



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["MFS"]

FURTHER CAUTIONARY UPDATE

AND

MARKET ANNOUNCEMENT

1. Introduction

Further to the cautionary announcement by Madison Financial Services PLC ("**MFS**") published on SENS dated 8th December 2020, shareholders and the market are hereby advised that Lawrence Sikutwa & Associates Limited ("**LSA**") and ZFI Holdings Limited ("**ZFI**"), the two largest shareholders in **MFS**, have separately executed Share Purchase Agreements (**the SPAs**) with XYLEM Trading (Pty) Limited ("**XTL**").

XTL is therefore in the processes of acquiring the combined shareholding of **LSA** and **ZFI** in **MFS**, which amounts to 72.05 % of the issued ordinary shares of **MFS** as at the **Effective Date**, subject to the terms and conditions as set out herein ("**the Transaction**").

2. The Transaction

In terms of the SPAs, the Transaction involves the following two separate acquisitions of shares:

- i) The acquisition by **XTL** of the 100 % shareholding in **ZFI** from Enko Africa Private Equity Fund Limited ("**Enko**") as the first leg of the Transaction. **ZFI** holds a total shareholding of 34.91 % in **MFS**; and
- ii) The acquisition by **XTL (via ZFI)** of 37.14 % shares in **MFS** from **LSA**, as the second leg of the Transaction.

The net result of the above two acquisitions is that **XTL** will effectively end up owning 72.05 % of the ordinary issued shares of **MFS via ZFI**.

3. The vendors

LSA

LSA is a private limited company with Zambian shareholding which was incorporated in 1995 by the management team at Madison Insurance Company Limited ("**Madison Insurance**") who went on to undertake a management buyout of the company from the Meridien Group.

LSA played a pioneering role in the transformation of Madison Insurance and its growth into a leading insurance services business in Zambia. In 2005 following regulatory reform Madison Insurance was unbundled into Madison General Insurance Company Zambia Limited ("**MGEN**") and Madison Life Insurance Company Zambia Limited ("**MLIFE**").

In 2007 the International Finance Corporation ("**IFC**"), the private sector arm of the World Bank Group, decided to invest in the LSA Group and this resulted in the creation of Madison Financial Services Limited ("**MFS**") in which LSA held 81.5% and the IFC held 19.5%. **MFS** thus became the holding company for the following subsidiaries; **MGEN**; **MLIFE**; MGen Insurance Tanzania Limited ("**MGenTZ**") ; Madison Finance Company Limited ("**MFinance**") ; and Madison Asset Management Company Limited ("**MAMCo**").

In September 2014, **MFS** was publicly listed on the Lusaka Securities Exchange ("**LuSE**") and the listing provided an exit route for the **IFC** and presented an investment opportunity for new institutional investors who included **ZFI**.

The proposed Transaction, therefore, enables **LSA** to unlock value and realize its investment in **MFS** and exit by selling its 37.14 % shareholding to **XTL** via **ZFI**.

Enko

Enko Africa Private Equity Fund Limited ("**Enko**") is a private limited company incorporated under the laws of the Republic of Mauritius and is a private equity investment fund. Enko is the 100% beneficial owner of the ordinary shares of **ZFI** which initially took up a 20% stake in **MFS** at listing in 2014 which stake has since grown to 34.91%.

ZFI

ZFI is a private limited company incorporated under the laws of the Republic of Mauritius and is the legal owner of 34.91% of the ordinary issued shares in **MFS**.

XTL

XTL is a company incorporated under the laws of the Republic of South Africa and is an investment vehicle with a diversified investment portfolio which includes regulated financial services in Mauritius, Zimbabwe and operations in Mozambique and Seychelles. **XTL** operations include world-class commodity trading in fuel and grain in the SADC region.

XTL is investing in **MFS** indirectly through the acquisition of **ZFI**; directly through the acquisition of shares from **LSA** (via **ZFI**); and the injection of fresh capital resulting in a control of **MFS**.

MGK Global Limited ("MGK**")**

MGK is a company incorporated in Seychelles and is a subsidiary of **XTL**.

4. Rationale for the Transaction

MFS was formed in 2007 and listed on the LuSE in 2014. The listing provided an exit route for the IFC and entry route for ZFI, to invest in MFS and acquire a significant equity stake in the company. Post listing, LSA and ZFI emerged as the two major shareholders in MFS. However, since the listing, there has not been any major capital injection into MFS.

Both LSA and ZFI recognise the need to support the continued growth of MFS, through capital injection to sustain the operations of the core units of the company, namely, MGEN, MLIFE, MFinance, MAMCo and MGenTZ and thereby ensure that they can compete effectively, retain market share and continue to grow going forward.

Furthermore, on the 4th of May and 18th of May 2020, MFS held an Extraordinary General Meeting (“EGM”) where shareholders resolved that MFS dispose of some of its assets in order to raise capital to meet some of the Group’s liabilities.

Subsequent to the EGM resolution, MFS received and executed a **Term Sheet** with MGK Global Limited which provided a holistic solution to the capital challenges it was facing. The Board of MFS has noted that the Term Sheet executed with MGK addresses both the immediate short term funding needs of MFS, as well as the funding to satisfy the medium and long -term requirements of MFS going forward.

The Transaction also provides an opportunity for Enko to exit its investment in **MFS** it had made through ZFI. Enko as a private equity firm has a time limit on any one investment hence its proposed exit from MFS.

Overall, the Transaction is a value-enhancing strategy in an effort to unlock value for the benefit of all the shareholders and stakeholders of **MFS**.

5. Terms of the Transaction

5.1 Transaction Term Sheet

MGK, MFS, LSA and ZFI have signed a Term Sheet which provides for the following funding as the Transaction structure:

- i) Acquisition, by **XTL**, of the 37.14% ordinary shares held in MFS by LSA and the acquisition of 100% of the shares of Enko in ZFI to give a combined shareholding via ZFI of 72.05 % of the ordinary share capital of MFS;
- ii) Acquisition of 100 % of the properties held and owned by MAMCo for a total value of U\$10,365,521.00, including but not limited to Hillview Estates; Buboni Housing Estate and LSA House in Lusaka;
- iii) Refinancing of existing MFS loan obligations to Enko;
- iv) Refinancing of the obligations of MGEN; and
- v) Capital injection into MFinance, MAMCo and MLife.

5.2 Escrow Agreement and Establishment of an Escrow Account

XTL will open an Escrow Account with a commercial bank within the Republic of Zambia in accordance with the **Escrow Agreement** signed between XTL, ZFI, LSA, Enko, MFS and the Escrow Agents.

XTL will deposit all the funds for the Transaction as per the Term Sheet and as per the Escrow Agreement into the **Escrow Account**.

Funds will be released from the Escrow Account by the Escrow Agents to effect the agreed payments as per the Term Sheet and Transaction structure, as directed by XTL and as per the terms and conditions specified in the Escrow Agreement.

5.3 Regulatory Approvals

- 5.3.1 MFS is a public company, and its shares are registered with the SEC in compliance with the Securities Act No 41 of 2016 and listed on the LuSE. The Transaction, therefore, requires regulatory approval by the SEC;
- 5.3.2 MGEN and MLIFE are wholly owned subsidiaries of MFS. MGEN and MLIFE are both regulated by the Pension and Insurance Authority ("**PIA**") in compliance with the Insurance Act No 27 of 1997 (as amended). The proposed Transaction will provide sufficient capital to enable MGEN to clear its current liabilities and to enable it to continue trading effectively.
- 5.3.3 MAMCo is an asset management company regulated by both the PIA and the SEC. The proposed Transaction will facilitate the acquisition of MAMCo properties by XTL and, therefore, provide liquidity to clear creditors in MAMCo's Fixed Income Fund.
- 5.3.4 Madison Finance Company ("**MFinance**") is a non-bank financial institution ("**NBFI**") regulated by the Bank of Zambia ("**BOZ**"), the central bank, under the Banking and Financial Services Act No 7 of 2017. MFinance is involved in micro-lending business. The proposed Transaction will result in the recapitalisation of MFinance and thereby enable it to meet the capital adequacy regulatory requirements of the BOZ and meet its liabilities.

5.4 Effective Date

The Effective Date of the Transaction is the date on which a share trade is executed on the LuSE whereby XTL will buy the shares held by LSA in MFS. Execution of the share trade is expected on **Thursday 21st January 2021** with funds settlement on Friday 22nd January 2021.

5.5 Funding of the Escrow Account

- 5.5.1 **XTL** will arrange for the Escrow Account to be fully funded on or before Friday 15th January 2021.
- 5.5.2 **XTL** will instruct release of funds from the Escrow Account on Friday 22nd January 2021 to effect payment to meet the following obligations:
 - i) Funds release to MGEN via MFS, to clear the MGEN liabilities before on or before 29th January 2021.

- ii) Funds release to MAMCo on or before 29th January 2021 for the purchase of the MAMCo properties as per clause 5.1(ii) above. The said funds in the sum of Nine Million Five Hundred Thousand United States of America Dollars (US\$9.5 million) is earmarked to be applied as a full and final settlement to the investors in the MAMCo Fixed Income Fund.
- iii) Funds release for the recapitalisation of MFinance; MLIFE; and
- iv) Funds release for payment to LSA for the sale of its 37.14 % MFS shares to XTL.
- v) Funds release for the payment to Enko for the 100% shareholding in ZFI and the repayment of the Enko Loan.

5.6 The Mandatory Offer by XTL to MFS Shareholders

The settlement of the BUY order and SELL order trade executed between XTL and LSA, on the Effective Date, will result in the transfer of the 37.14 % shares held by LSA in MFS to XLT.

The net result is that XTL will then effectively hold a combined total of 72.05 % shareholding in MFS and this change of control in MFS obligates XTL to undertake a mandatory offer in MFS to all the remaining shareholders of MFS in compliance with Rule 56 of the Third Schedule of the Takeovers and Mergers Rule, SI No 170 of 1993 pursuant to the Securities Act.

Accordingly, the required market announcements and actions required will be made to shareholders, via SENS, when this change of control occurs.

5.7 Conditions precedent

The Transaction is subject to the fulfilment of certain conditions precedent, including inter alia:

- Approval from the SEC of the Transaction;
- Approval from the SEC of the Escrow Agreement;
- Signature by all parties of the approved Escrow Agreement; and
- Approval from the relevant Competition Commissions.

6. Renewal of cautionary announcement

Shareholders should note that the cautionary announcement is hereby renewed and remains in place and shareholders are advised to continue exercising caution when dealing in MFS s shares until the finalisation announcement is made.

By Order of the Board
Kafula Mwiche
Company Secretary

Issued in Lusaka, Zambia on 24 December 2020

Lusaka Securities Exchange Sponsoring Broker



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First Issued on **24 December 2020**