



## **THE MAURITIUS CHEMICAL AND FERTILIZER INDUSTRY LIMITED**

### **DISCLOSABLE AND RELATED PARTY TRANSACTION CIRCULAR TO THE SHAREHOLDERS**

A Circular to the shareholders of The Mauritius Chemical and Fertilizer Industry Limited ("MCFI") relating to the acquisition by MCFI, of 177,250 ordinary shares in Suchem Ltd ("Suchem") and the purchase of three plots of land of a total extent of approximately 21,000 square metres situated in Bois Marchand from Harel Mallac and Co. Ltd ("Harel Mallac") (together referred to as the "Transaction") for a total consideration of MUR 194.7 million.

This circular is issued by The Mauritius Chemical and Fertilizer Industry Limited, registration number C06001461, having its registered office at 18, Edith Cavell Street, Port Louis.

**IF YOU ARE A SHAREHOLDER OF MCFI, THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

For a full appreciation of this Circular, this document should be read in its entirety. If you are in doubt about the action you should take, you should consult your investment dealer, legal adviser or other professional adviser immediately.

**This document is neither an invitation nor a prospectus nor a statement in lieu of a prospectus for the public in Mauritius or elsewhere to subscribe for shares in MCFI.**

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A copy of this Circular has been filed with the FSC and the SEM.

## DECLARATION BY DIRECTORS

This Circular includes particulars given in compliance with the Stock Exchange of Mauritius Ltd Rules (the “Listing Rules”) governing the Official Listing of Securities for the purpose of giving information with regards to the issuer. The Directors of MCFI, whose names appear in section 5.1 of this Circular, collectively and individually, accept full responsibility for the accuracy and completeness of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Directors of MCFI hereby state that:

- i. the working capital available to MCFI and its subsidiary companies (the “MCFI Group”) is sufficient to meet their day to day operations for a period of twelve (12) months from the date of this document;
- ii. Since the publication of the unaudited financial statements for the nine months ended 30 September 2019, the financial position of MCFI Group has been negatively impacted by an estimated amount of MUR 100.7 million relating to provision for impairment of an overseas debtor and payments for an early retirement scheme;
- iii. At 30 September 2019,
  - a. Total debt securities of MCFI Group amounted to nil;
  - b. The total borrowings of MCFI Group amounted to MUR 152,604,329, all of which is secured (no unsecured borrowings);
  - c. The total contingencies and/or guarantees of MCFI Group amounted to MUR 8,693,476;
  - d. The total mortgages and charges of MCFI Group amounted to MUR 675,660,000; and
  - e. MCFI Group had given bank guarantees of MUR 8,693,476 in the ordinary course of business.

The consents given by the experts named in this Circular have not been withdrawn at the date of this Circular.

The Directors of MCFI are of the opinion that the Transaction is fair and reasonable so far as the shareholders of MCFI are concerned, based on:

- i. the intention of the Board of MCFI to undertake the purchase of Suchem so as to align the ownership of MCFI and Suchem in order to achieve better operational efficiency and to increase revenue synergies by expanding into foreign markets and diversifying its product offerings locally;
- ii. the price for the shares of Suchem having been determined by the Board of MCFI based on the valuation exercise carried out jointly by two reputable independent valuers, PricewaterhouseCoopers and Deloitte Mauritius, in the context of the above Transaction;
- iii. the interest of the board of MCFI which is contemplating to rationalise its industrial chemical activities into one location and hence would accordingly require the purchase of land; and
- iv. the price of the land has been determined by the Board of MCFI based on the valuation exercise carried out by Professional Valuers Co Ltd.

On 17 December 2019, MCFI published a cautionary announcement to inform its shareholders and the public in general that it intends to acquire 100% of the issued share capital of Suchem representing 177,250 ordinary shares currently in issue, further to which MCFI will become the 100% owner of the stated capital in Suchem. MCFI also intends to purchase three plots of land of a total extent of approximately 21,000 square metres situated in Bois Marchand from Harel Mallac.

The intended Transaction is subject to the following condition precedent:

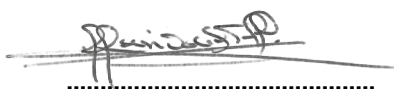
- Shareholders’ approval in compliance with section 13.23(c) of the Listing Rules.

For and on behalf of the Board of Directors of MCFI.



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Vincent Labat



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Allain Doger de Speville

17 February 2020

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# 1. Definitions

In this Circular, the terms below have the meaning stated except where otherwise noted.

<b>Abbreviation</b>	<b>Definition</b>
Board	The Board of Directors of MCFI
Circular	This document prepared in accordance with the Listing Rules issued by the SEM
DCF	Discounted Cash Flow
Deloitte	Deloitte Mauritius
Harel Mallac	Harel Mallac & Co. Ltd
Listing Rules	The rules governing securities listed on the Official Market of the SEM
MCFI	The Mauritius Chemical and Fertilizer Industry Limited
MCFI Group	MCFI and its subsidiary companies
MUR	Mauritian Rupee
Professional Valuers	Professional Valuers Co. Ltd
PwC	PricewaterhouseCoopers
SEM	The Stock Exchange of Mauritius Ltd, established under the repealed Stock Exchange Act 1988 and governed by the Securities Act 2005 as amended
Suchem	Suchem Ltd
Transaction	The acquisition by MCFI, of 177,250 ordinary shares in Suchem Ltd ("Suchem") for a consideration of MUR 143.5 million and the purchase of three plots of land of a total extent of approximately 21,000 square metres situated in Bois Marchand from Harel Mallac for a consideration of MUR 51.2 million, amounting to a total consideration of MUR194.7 million.

## 2. Company Background and Principal Activities

MCFI is a manufacturing company, operating an NPK complex fertiliser plant and a blending unit for fertilisers, in the Port area. Following the acquisition of Bychemex Ltd and Chemco Ltd in first half of 2019, MCFI diversified its activities to now include a significant trading business in chemicals and general goods. The company has been listed on the official market of SEM since 1989 and is a subsidiary of Harel Mallac & Co. Ltd ("Harel Mallac").

As at 30 September 2019, MCFI had 8 subsidiaries:

Name of companies	Country of incorporation	Ownership interest	
		Direct (%)	Indirect (%)
Bychemex Ltd	Mauritius	100	-
Chemco Ltd	Mauritius	100	-
Coolkote Ltd	Mauritius	100	-
Logima Reunion SAS	Reunion Island	-	100
MCFI Export Ltd	Mauritius	-	100
MCFI International (Zambia) Ltd	Zambia	-	100
MCFI International (Tanzania) Limited	Tanzania	-	100
MCFI International & Co Ltd	Mauritius	100	-

M.C.F.I. (Freeport) Ltd and Fertco Ltd were removed from the register of companies effective 28 August 2019 and 25 September 2019 respectively.

The dissolution of Reunifert SAS in Reunion Island was decided by its sole shareholder, MCFI International & Co Ltd, and effective on 1 June 2019.

Other investments as at 30 September 2019 include:

Name of companies	Country of incorporation	Ownership interest	
		Direct (%)	Indirect (%)
Biofert Co Ltd	Mauritius	33.3	-
Rehm Grinaker Construction Co Ltd	Mauritius	21.5	-
Rehm Grinaker Properties Co Ltd	Mauritius	21.5	-

As at 30 September 2019, the stated capital of MCFI was made up of 22,006,418 ordinary shares of MUR 10 each, amounting to a total of MUR 220,064,180.

### 3. The Transaction

Suchem is a private limited liability company incorporated in Mauritius. Its registered office address is 18, Edith Cavell Street, Port Louis. Suchem operates in the industrial and agricultural sector and is mainly involved in the importation and commercialisation of pesticides, industrial chemicals and textile auxiliaries.

MCFI and Suchem form part of the Chemicals, Fertilisers and Hygiene Division of the Harel Mallac Group, with Harel Mallac providing management services to both companies and an Officer responsible for the Division.

With a view to benefit from the potential synergies between MCFI and Suchem, the Board of MCFI has recommended, subject to shareholders' approval, the following Transaction:

- Acquisition of the total shareholding in Suchem, representing 177,250 ordinary shares currently in issue for a consideration of MUR 143.5 million; and
- Purchase of three plots of land of a total extent of approximately 21,000 square metres situated in Bois Marchand from Harel Mallac for a consideration of MUR 51.2 million.

#### Disclosable transaction

Chapter 13 of the Listing Rules of the SEM defines a disclosable transaction, inter alia, as an acquisition of assets by a listed issuer or any of its subsidiaries where:

- a. the value of the assets being acquired or realised represents 15 per cent or more of the net assets or consolidated net assets, as the case may be, of the acquiring or realising group; or
- b. the net profit (after deducting all charges except taxation) attributable to the assets being acquired or realised as disclosed in the latest published audited accounts represents 15 per cent or more of such net profit of the acquiring or realising group; or
- c. the aggregate value of the consideration given or received represents 15 per cent or more of the net assets or consolidated net assets, as the case may be, of the acquiring or realising group; or
- d. the value of the equity capital issued as consideration by the acquiring issuer represents 15 per cent or more of the value of the equity capital previously in issue.

Based on the Chapter 13 tests, the value of the consideration given represents more than 15 per cent of the consolidated net assets of MCFI and would thus qualify as a disclosable transaction.

#### Related Party transaction

The intended acquisition of Harel Mallac's stake in Suchem by MCFI, as well as the intended purchase of three plots of land of a total extent of approximately 21,000 square metres situated in Bois Marchand from Harel Mallac, qualifies as a related party transaction under Chapter 13 of the Listing Rules of the SEM by virtue of Harel Mallac being the controlling shareholder of MCFI.

The intended Transaction is therefore subject to the independent shareholders' approval. Pursuant to Chapter 13 clause 13.23 (d) of the Listing Rules, a condition of the validity of the resolution will be a simple majority of the votes of shareholders, other than the related party's votes, being cast in favour of the resolution.

Harel Mallac, being the majority shareholder of MCFI and the sole shareholder of Suchem, is considered to be a related party which has a significant interest in the Transaction. Hence, Harel Mallac will not be entitled to vote at the meeting of shareholders of MCFI as per the Listing Rules.

A special meeting of shareholders of MCFI is being convened on 19 March 2020 to approve the Transaction.

A statement of abstention from Harel Mallac is included, in that respect, in Appendix I.

In accordance with Section 13.15 of the Listing Rules, MCFI has notified the SEM of the Transaction on 17 December 2019. The present Circular has been approved by the Listing Executive Committee on 17 February 2020, in conformity with the Listing Rules.

## 4. Information on the Transaction

### 4.1 Rationale for the Transaction

MCFI is considering the acquisition of Suchem with the objectives of:-

- (i) achieving better operational efficiency
- (ii) increasing revenue synergies by expanding into foreign markets and broadening its product offerings locally
- (iii) mitigating risk through diversifying its activities.

By aligning the ownership and the management of the companies within a single holding company within the chemical division, it would be easier to benefit from potential synergies in terms of simpler administrative structures and efficiencies such as leveraging economies of scale in procurement.

Suchem operates mainly on the local market, with currently limited export into the region. Should this acquisition go ahead, MCFI will have the opportunity to market the product portfolio of Suchem across its existing international networks.

Through this acquisition, MCFI will be able to diversify its Mauritian activities into non-fertilisers agricultural products and boost its existing portfolio of industrial chemicals.

The purchase of land from Harel Mallac is of interest to the board of MCFI which is contemplating to rationalise its industrial chemical activities into one location.

### 4.2 Acquisition of 100% of Suchem

MCFI proposes to acquire 100% of the shares of Suchem for a total consideration of MUR 143.5 million.

The net assets value of Suchem as per the audited accounts for the year ended 31 December 2018 amounted to MUR 63.4 million.

#### Basis for Determination of Price Consideration

The consideration was determined by the Board based on the independent valuation exercise carried out jointly by PwC and Deloitte as at 30 June 2019. A copy of the PwC and Deloitte valuation report dated 9 December 2019 is available for inspection at the registered office of MCFI, 18 Edith Cavell Street, Port Louis.

Following representation by management of Suchem, the independent valuers are satisfied that there are no known significant factors which could affect the value arrived at since the valuation date.

For the purpose of ascertaining the value of Suchem, the joint valuers have undertaken the valuation on a controlling and non-marketable basis.

#### Impact on MCFI Financial Statements as at 31 December 2018 and 2017

Had MCFI already acquired 100% shareholding in Suchem, based on 31 December 2018 financial statements, the profit before tax and profit after tax attributable to MCFI for the 100% acquisition in Suchem would have been MUR 7.6 million in 2018 (2017: MUR 19.4 million) and MUR 4.4 million in 2018 (2017: MUR 16.0 million) respectively.

#### Funding

The acquisition of the 100% stake in Suchem will be funded out of existing financial assets of MCFI.



### **4.3 Purchase of land from Harel Mallac**

MCFI intends to purchase three plots of land from Harel Mallac, bearing PIN 1214110259, 1214110258 and 1214110245, of a total extent of approximately 21,000 square metres situated in Bois Marchand for a total consideration of MUR 51.2 million. A small portion of 1,136 square metres on one of the plots is currently being leased by Harel Mallac to one of its wholly owned subsidiaries. MCFI will acquire all the rights and obligations of Harel Mallac upon acquisition.

#### *Basis for Determination of Price Consideration*

The consideration was determined by the Board based on the independent valuation exercise carried out by Professional Valuers as at 11 December 2019. A copy of the valuation report is available for inspection at the registered office of MCFI, 18 Edith Cavell Street, Port Louis.

The value of the properties was derived by the valuer using the sales comparison approach.

#### *Funding*

The acquisition of the above plots of land will be funded out of existing financial assets of MCFI.

### **4.4 Statement from Independent Valuers**

The independent valuers, PwC and Deloitte state that

- (a) They do not hold shares in MCFI or Suchem or have the right to nominate persons to subscribe for shares in MCFI or Suchem;
- (b) They are not the statutory auditors of MCFI or Suchem;
- (c) They have given and have not withdrawn consent to the form and content of the valuation report; and
- (d) The statements set out above were made on 9 December 2019 by PwC and Deloitte for incorporation in this document.

Professional Valuers has made a statement on 11 December 2019, stating that they do not hold shares in MCFI and have given and not withdrawn their consent to the form and content of the valuation report

### **4.5 Date of transaction**

The Transaction is expected to be completed on or about 31 March 2020.

## 5. Directors

### 5.1 Directors' Details

As at 30 September 2019, MCFI directors were as follows:

Name	Address
HAREL Antoine Louis - Chairman (Non-Executive)	Mont Choisy, Grand Bay
AH KINE Suie Sen Hock Meen (Executive Director)	151 Guy Forget Avenue, Quatre Bornes
DOGER DE SPEVILLE Marie Joseph Georges Allain (Independent Director)	Chancery House, Lislet Geoffroy Street, Port Louis
HAREL Charles Paul Luc (Non-Executive Director)	Domaine de Rosalie, Grande Rosalie
HAREL Marie Auguste Guy (Independent Director)	No.1 Les Colophanes, Queen Mary Ave, Floreal
LABAT André Marc Jean Vincent (Independent Director)	60, Chemin du Rhum, Hillside 31807 Labourdonnais, Mapou
MARIE Sylvio Désiré Patrice (Non-Executive Director)	Plot 45, Plantation Marguery, Rivière Noire
NG KWING KING Edward Harold (Independent Director)	20D Willoughby Avenue, Quatre Bornes
RIVALLAND Jean Paul Patrick (Independent Director)	Plot No 7, Yemen, Tamarin

As at 1 December 2019 and 31 December 2019 respectively, Sylvio Désiré Patrice Marie and Suie Sen Hock Meen Ah Kine resigned as directors of MCFI.

### 5.2 Directors' Service Contracts

As at 30 September 2019, one of MCFI's directors had an employment contract of indeterminate duration with the company.

As at 31 December 2019, the said executive director resigned as director of MCFI.

### 5.3 Interests of Directors and chief executive

The direct interests of the Directors and chief executive of MCFI and their indirect interests through related parties in the equity securities of MCFI as at 30 September 2019 are set out below:

DIRECTORS	THE COMPANY	
	Direct Interest	Indirect Interest
Antoine L. Harel	-	819,282
Charles Harel	-	800,251
Harold Ng Kwing King	3,750	-

### 5.4 Remuneration and benefits in kind to Directors

The aggregate of remuneration paid and benefits in kind granted to the Directors of MCFI in respect of the last financial year ended 31 December 2018 amounted to MUR 13.1 million.

The Directors' remuneration and benefits in kind for the next financial period have not yet been determined.

## 6. Financial Information

### 6.1 Suchem Financial Highlights

The financial highlights of Suchem for the financial years ended 31 December 2018, 2017 and 2016 are as follows:

<b>Suchem</b>		<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Total assets	<i>MUR '000</i>	147,129	150,739	131,211
Equity holders' interest	<i>MUR '000</i>	63,425	65,696	56,941
Total equity and liabilities	<i>MUR '000</i>	147,129	150,739	131,211
Revenue	<i>MUR '000</i>	229,778	252,184	241,241
Profit before taxation	<i>MUR '000</i>	7,569	19,380	17,652
Profit for the year	<i>MUR '000</i>	4,448	15,997	14,986
Basic earnings per share	<i>MUR</i>	25.10	90.25	84.55
Dividend per share	<i>MUR</i>	39.49	39.49	62.06
Net asset value per share	<i>MUR</i>	357.83	370.64	321.25

## 7. MCFI Statement of Financial Position

MCFI's condensed unaudited consolidated statement of financial position as at 30 September 2019 and unaudited pro-forma consolidated statement of financial position post acquisition as at 30 September 2019, based on the assumption that the Transaction occurred at that date are as follows:

### CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019

	<b>Pre- Acquisition (Unaudited FS) MUR '000</b>	<b>Post- Acquisition (Unaudited FS) MUR '000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	162,957	218,490
Intangible Assets	1,248	10,514
Investment properties	56,296	56,296
Financial assets at amortised cost	243,294	48,564
Other non-current assets	34,256	35,243
	<hr/> 498,051	<hr/> 369,107
<b>Current Assets</b>		
Inventories	251,428	301,945
Trade and other receivables	302,829	372,207
Cash and Cash Equivalents	68,164	68,564
	<hr/> 622,421	<hr/> 742,716
<b>Total assets</b>	<hr/> <b>1,120,472</b>	<hr/> <b>1,111,823</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share Capital	220,064	220,064
Retained Earnings and Reserves	363,876	285,545
Owners' interest	<hr/> 583,940	<hr/> 505,609
<b>Non-Current Liabilities</b>	138,252	144,832
<b>Current Liabilities</b>		
Trade and other payables	332,249	370,319
Other current liabilities	66,031	91,063
	<hr/> 398,280	<hr/> 461,382
<b>Total Liabilities</b>	536,532	606,214
<b>Total Equity &amp; Liabilities</b>	<hr/> <b>1,120,472</b>	<hr/> <b>1,111,823</b>

At 30 September 2019, MCFI had a loan receivable of MUR 243.3 million from Harel Mallac. Subject to approval of the Transaction, the consideration of MUR 194.7 million will be offset against this loan receivable.

Since Suchem is ultimately controlled by Harel Mallac both before and after the transaction, the acquisition has been treated as a business combination under common control in the proforma statement, using the book value accounting approach. Under this approach, the assets and liabilities of the Suchem have been acquired at their carrying amounts. Any difference between the acquired net assets and the consideration is recognised directly in equity, hence explaining the decrease in retained earnings and reserves in the post transaction proforma statement of financial position.

## 8. Additional Disclosures

### 8.1 Material Contracts

Harel Mallac has contracted a loan with MCFI, a registered money lender, which amounted to MUR 243,294,100 as at 30 September 2019. The loan bears interest at a rate indexed to the Prime Lending Rate of the commercial banking sector in Mauritius and is renewable by agreement of the parties. Two of the directors of MCFI are interested in the loan agreement by virtue of their indirect shareholding in Harel Mallac.

### 8.2 Legal Proceedings and Contingencies

Two investigations (bearing references INV037 and INV041) were launched by the Competition Commission of Mauritius (CCM) with respect to potential breaches of sections 41 and 42 of the Competition Act 2007 by MCFI and United Investments Ltd and its subsidiaries, pertaining to the supply of fertilisers. MCFI has applied to the CCM for Leniency in respect of INV037 and Leniency Plus in respect of INV041. Final Reports dated 29 June 2018 for both investigations have been issued by the Executive Director of the CCM. A procedural hearing was held by the Commission on 29th October 2019 and a ruling is expected to be delivered by the Competition Commission. Following the said ruling, the matter may be scheduled for hearing before the Commission.

Negotiations between MCFI and the Mauritius Ports Authority (MPA) for the rental increase applicable on leasehold land for the period leading to 2030 have commenced and are ongoing.

## 9. Documents available for Inspection

The following documents are available for inspection until the special meeting of shareholders of MCFI being convened on 19 March 2020 during normal business hours at the registered address of MCFI:

- The constitution of MCFI;
- The original of the present Circular to the shareholders of MCFI;
- The audited financial statements and annual reports of MCFI for the years ended 31 December 2016, 2017 and 2018;
- A copy of the loan agreement between Harel Mallac and MCFI (section 8.1 above); and
- A copy of both Valuation Reports together with statements from the Independent Valuers.

17 February 2020

# Appendix 1

## **Statement of Abstention from voting at the special meeting of The Mauritius Chemical and Fertilizer Industry Limited (“MCFI”) in compliance with Chapter 13 of the Listing Rules**

Harel Mallac & Co. Ltd (“Harel Mallac”), is the parent company of MCFI by virtue of having a holding of 70.4% as at 30 November 2019.

The Mauritius Chemical and Fertilizer Industry Limited (“MCFI”) intends to acquire 177,250 ordinary shares in Suchem Ltd (“Suchem”) for an amount of MUR 143.5 million and purchase three plots of land from Harel Mallac, bearing PIN 1214110259, 1214110258 and 1214110245, of a total extent of approximately 21,000 square metres situated in Bois Marchand for a consideration of MUR 51.2 million (together referred to as the “Transaction”) for a total consideration of MUR 194.7 million from Harel Mallac.

In compliance with Listing Rules 13.23(d), Harel Mallac being a related party to MCFI with an interest in the Transaction will not cast its votes in the ordinary resolution at the special meeting of shareholders of MCFI.

The terms contained in this statement were approved by the Board of Harel Mallac on 27 December 2019.

For and on behalf of the Board of Directors of Harel Mallac & Co. Ltd



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Antoine L. Harel  
*Chairman.*



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Charles Harel  
*Chief Executive Officer.*

