MPICO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

MPICO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

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MPICO LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2016

The directors have pleasure in submitting the consolidated financial statements of MPICO Limited for the year ended 31 December 2016.

Incorporation and registered office

MPICO Limited, which is the holding company of the Group, is a company incorporated in Malawi under the Companies Act, 2013 of Malawi. It is listed on the Malawi Stock Exchange. The address of its registered office is:

Old Mutual House
Robert Mugabe Crescent
P.O. Box 30459
LILONGWE 3

Areas of operation

The Group has **28** (2015: 28) investment properties in the country mainly in Lilongwe, Mzuzu and Blantyre, which it lets out to the Government and the Private Sector.

Share capital

The authorized share capital of the holding company is **K150 million** (2015: K60 million) divided into **3,000,000,000** ordinary Shares of 5 tambala each (2015: 1,200,000,000 ordinary shares of 5 tambala each). The issued share capital is **K114.902 million** (2015: K57.451 million) divided into **2,298,047,460** ordinary shares of 5 tambala each (2015: 1,149,023,730 ordinary shares of 5 tambala each), fully paid.

The shareholders and their respective shareholding as at year-end were:

	2016	2015
	%	%
Old Mutual Limited	**72.0**	57.0
General Public	**23.0**	33.0
Lincoln Investments Limited	**5.0**	10.0
	100.00	100.00

Profits and dividends

The directors report a net profit for the year of **K1.99 billion** (2015: K0.77 billion). No dividend was declared in respect of 2016 profits for the company.

Financial performance

The results and state of affairs of the Group are set out in the accompanying consolidated statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flows and other explanatory information and do not in our opinion, require any further comment..

MPICO LIMITED

DIRECTORS' REPORT (Continued)
For the year ended 31 December 2016

Directors
The following directors, appointed in terms of the company's Articles of Association, served office during the year:

Mr. D. Mawindo	-	Chairman	01 January to 20 May 2016
Mrs. E. Jiya	-	Chairperson	21 May 2016 to 31 December 2016
Mrs. E. Jiya		Member	01 January to 20 May 2016
Mr. C. Kapanga	-	Member	All year
Mr. A. Barron	-	Member	All year
Mr. M. Mikwamba	-	Member	All year
Mrs. V. Masikini	-	Member	All year
Mr. P. du Plessis	-	Member	01 January to 19 August 2016
Mrs. E. Salamba	-	Member	23 May to 31 December 2016
Mr. D. Kafoteka	-	Member	17 August to 31 December 2016
Ms. Faieda Jacobs	-	Member	17 August to 31 December 2016
Ms. Chifundo Kalaile	-	Member	17 August to 31 December 2016
Mr. S. Malata	-	Member	01 January to 30 June 2016
Mr. C. Katulukira	-	Company Secretary	All year

Directors' interests
The directors noted below hold the following ordinary shares in MPICO Limited (the holding company) at the year-end.

Mr. D. Mawindo	:	43,471 shares	(2015: 43,471 shares)
Mr. S. Malata	:	85,689 shares	(2015: 85,689 shares)
Mr. C. Kapanga	:	252,773 shares	(2015: 252,773 shares)
Mrs. E. Jiya	:	31,649 shares	(2015:31649 shares)

Activities
MPICO Group is in the business of development, rental and management of property. The Group consists of the following companies:

Company	**Nature of operations**
MPICO Limited	Development and rental of property
Capital Developments Limited	Development and rental of property
New Capital Properties Limited	Development and rental of property
Capital Investments Limited	Development and rental of property
Frontline Investments Limited	Development and rental of property
MPICO Malls Limited	Development and rental of property

Auditors
The Group's independent auditors, Messrs KPMG, Chartered Accountants and Business Advisors, have indicated their willingness to continue in office subject to the terms of the contract as auditors in respect of Group's **31 December 2017** consolidated financial statements.

BY ORDER OF THE BOARD

CHAIRPERSON | **DIRECTOR**

Date 16 February, **2017**

MPICO LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2016

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements of MPICO Limited, comprising the consolidated statements of financial position as at 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

The Act also requires the directors to ensure that the Group and individual companies within the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and ensure the consolidated financial statements comply with the Companies Act, 2013 of Malawi.

In preparing the consolidated financial statements, the directors accept responsibility for the following:-

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing the consolidated financial statements, subject to any material departures being disclosed and explained in the consolidated financial statements; and
- Preparation of the consolidated financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business.

The directors are also responsible for maintaining adequate accounting records and an effective system of risk management.

The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors have made an assessment of the Group respective abilities to continue as going concerns and have no reason to believe that these businesses will not be going concerns in the year ahead from the date of this statement.

The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with the International Financial Reporting Standards and in the manner required by Malawi Companies Act, 2013.

Approval of the consolidated financial statements

The consolidated financial statements as indicated above, were approved by the Board of Directors on 16 February, 2017 and are signed on its behalf by:

CHAIRPERSON: ______________________

DIRECTOR: ______________________

KPMG
Chartered Accountants and Business Advisors
Nurses Council Building
New Capital City Centre
P.O. Box 30453
Lilongwe 3, Malawi

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MPICO LIMITED

Opinion

We have audited the consolidated financial statements of MPICO Limited (the Group) set out on pages 8 to 43, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MPICO Limited as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standard Board for Accountants' *Code for Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment properties *See Notes 4.3, 6 and 7 to the financial statements*	
The Group's investment properties comprise various developed properties for office and residential tenancy. The investment properties are measured at fair value, which amounted to **MK 43.5 billion** at year end. The fair value adjustment recorded in net profit for the year in respect of investment properties was **MK5.1 billion**. The Group uses independent valuers to determine the fair values for all of the properties annually. Significant judgement is required by the valuer in determining the fair value of investment properties. Due to the significance of the balance to the financial statements as a whole, combined with the judgement associated with determining the fair value, this matter was determined to be a matter of the most significance in the audit of the consolidated financial statements in the current year.	In order to ensure that that all of the Group's properties had been valued, our audit included: • Obtaining a schedule of the investment properties held by the Group and selecting some items for testing, taking into consideration newly acquired assets, and • Inspecting title deeds to the properties included on the schedule to ensure that they are in the name of a company within the Group, as well as checking if there were any encumbrances over the properties and whether these have been properly disclosed. In terms of the valuation of these properties, we assessed the competence, capabilities and objectivity of the independent valuer, and verified their qualifications. In addition, we reviewed the scope of their work and their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We made use of our experience and knowledge of the market to evaluate the independent valuer's judgements, in particular: • The models used and their respective inputs; and • The significant assumptions made in the valuation. Furthermore, we tested a selection of data inputs underpinning the investment property valuations, including rental income, tenancy schedules, capital expenditure details, and square meter details, against appropriate supporting documentation. We assessed the accounting treatment and related disclosure of the investment properties from an International Financial Reporting Standards perspective.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' responsibilities, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

KPMG

Joel Mwenelupembe
Chartered Accountant (Malawi)
Partner

Lilongwe, Malawi

Date 31 MARCH **2017**

MPICO LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
In thousands of Malawi Kwacha

	Notes	2016	2015
ASSETS			
Non-current assets			
Investment properties	6 & 7	43,510,442	37,628,828
Plant and equipment	8	721,600	744,936
Secured staff loans	10	39,497	45,475
Deferred tax assets	11	2,217,274	1,166,590
Total non-current assets		46,488,813	39,585,829
Current assets			
Trade and other receivables	12	7,734,461	2,231,962
Income tax recoverable	22	784,097	426,443
Cash and cash and equivalents	14	854,322	260,103
Total current assets		9,372,880	2,918,508
TOTAL ASSETS		55,861,693	42,504,337
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15	114,902	57,451
Share premium	16	11,369,361	2,742,423
Distributable reserves		187,130	1,071,806
Non-distributable reserves		14,827,141	11,984,309
Equity attributable to equity holders of the parent		26,498,534	15,855,989
Non-controlling interests	26	1,460,181	1,434,274
Total equity		27,958,715	17,290,263
LIABILITIES			
Non-current liabilities			
Borrowings- long term portion	18	11,208,943	11,774,326
Redeemable preference shares	17	3,904,378	3,904,378
Deferred tax liabilities	11	6,281,436	5,296,060
Total non-current liabilities		21,394,757	20,974,764
Current liabilities			
Borrowings – short term portion	18	1,220,866	688,109
Trade and other payables	19	783,160	1,204,031
Income tax payable		1,564,451	424,739
Dividend payable to non – controlling interest : preference shares	17	2,779,076	1,301,308
Bank overdraft	14	160,668	621,123
Total current liabilities		6,508,221	4,239,310
Total liabilities		27,902,978	25,214,074
TOTAL EQUITY AND LIABILITIES		55,861,693	42,504,337

The consolidated financial statements were approved and authorized for issue by the Board of Directors on ______________ 2017 and were signed on its behalf by:

CHAIRPERSON **DIRECTOR**

The notes on page 12 to 43 are an integral part of these consolidated financial statements.

MPICO LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
In thousands of Malawi Kwacha

	Notes	2016	2015
Operating revenue			
Rental income	6	**3,782,253**	2,922,651
Increase in fair value of investment properties	6	**5,087,099**	2,573,983
Interest income	13	**2,579,588**	399,334
Other income		**87,993**	179,544
Total income		**11,536,933**	6,075,512
Operating expenses			
Property and administration expenses	23	**(1,744,681)**	(1,230,129)
Allowance for doubtful receivables	12	**(28,516)**	(31,862)
Total operating expense		**(1,773,197)**	(1,261,991)
Exchange loss on borrowings		**(1,099,775)**	(339,189)
Interest on redeemable preference shares	17	**(1,477,768)**	(1,301,308)
Finance costs on borrowings		**(4,110,941)**	(2,513,082)
Net finance cost		**(6,688,484)**	(4,153,579)
Operating profit before income tax		**3,075,252**	659,942
Income tax (expense) /credit	22	**(1,086,613)**	116,565
Profit for the year		**1,988,639**	776,507
APPROPRIATION OF PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Distributable reserves	24	**(884,676)**	(694,913)
Non-distributable reserves	24	**2,842,832**	1,628,054
Amounts attributable to members of the parent		**1,958,156**	933,141
Amounts attributable to non - controlling interests		**30,482**	(156,634)
		1,988,638	776,507
Basic earnings per share (K)	24	**0.85**	0.81
Analyzed as:			
Distributable (K)		**(0.39)**	(0.61)
Non-distributable (K)		**1.24**	1.42

The notes on page 12 to 43 are an integral part of these consolidated financial statements.

MPICO LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016
In thousands of Malawi Kwacha

	Share capital	Share premium	Distributable reserves	Non-distributable reserves	Attributable to equity holders of the parent	Non-controlling interests	Total
For the year ended 31 December 2016							
At 1 January 2016	57,451	2,742,423	1,071,806	11,984,309	15,855,989	1,434,274	17,290,263
Total comprehensive income							
Distributable profit for the year	-	-	(884,676)	-	(884,676)	(688,180)	(1,572,856)
Non-Distributable profit for the year	-	-	-	2,842,832	2,842,832	718,662	3,561,494
Total comprehensive income	-	-	(884,676)	2,842,832	1,958,156	30,482	1,988,638
Transactions with owners of the company							
Dividends declared-Interim 2016	-	-	-	-	-	(4,575)	(4,575)
Issue of shares	57,451	-	-	-	57,451	-	57,451
Share premium	-	8,626,938	-	-	8,626,938	-	8,626,938
Total transactions with owners of the company	57,451	8,626,938	-	-	8,684,389	(4,575)	8,679,814
Balance at 31 December 2016	114,902	11,369,361	187,130	14,827,141	26,498,534	1,460,181	27,958,715
For the year ended 31 December 2015							
At 1 January 2015	57,451	2,742,423	1,812,680	10,356,255	14,968,809	1,753,796	16,722,605
Total comprehensive income							
Distributable profit for the year	-	-	(694,913)	-	(694,913)	(504,946)	(1,199,860)
Non-Distributable profit for the year	-	-	-	1,628,054	1,628,054	348,312	1,976,366
Total comprehensive income	-	-	(694,913)	1,628,054	933,141	(156,634)	776,507
Transactions with owners of the company							
Dividends declared-Final 2014	-	-	(45,961)	-	(45,961)	-	(45,961)
Dividends declared-Interim 2015	-	-	-	-	-	(162,888)	(162,888)
Total transactions with owners of the company	-	-	(45,961)	-	(45,961)	(162,888)	(208,849)
Balance at 31 December 2015	57,451	2,742,423	1,071,806	11,984,309	15,855,989	1,434,274	17,290,263

The notes on page 12 to 43 are an integral part of these consolidated financial statements.

MPICO LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
In thousands of Malawi Kwacha

	Notes	2016	2015
Cash flows from operating activities			
Net cash (used in)/ generated from operations	25	(4,855,677)	1,819,074
Returns on investments and servicing of finance			
Interest received		2,579,588	399,334
Interest paid		(4,110,941)	(2,513,082)
Net cash used in operating activities and servicing of finance		(1,531,353)	(2,113,748)
Taxation paid	22	(369,861)	(779,242)
Net cash used in operating activities		(1,901,214)	(2,892,990)
Cash flows to investing activities			
Additions to plant and equipment and additions to investment properties	7 & 8	(841,987)	(657,792)
Additions to capital work in progress	9	-	(958,197)
Proceeds on disposal of plant and equipment		386	401,486
Staff long-term loans granted		5,978	3,048
Net cash used in investment activities		(835,623)	(1,211,455)
Cash flows from financing activities			
Increase in borrowings	18	4,997,290	2,138,529
Exchanges loss related to borrowings	18	1,099,775	328,972
Repayment of borrowings	18	(6,129,691)	(443,889)
Increase in capital	16	8,684,389	-
Dividends paid to shareholders		(4,575)	(315,799)
Net cash generated from financing activities		8,647,188	1,707,813
Net increase / (decrease) in cash and cash equivalents		1,054,674	(577,558)
Cash and cash equivalents at the beginning of the year		(361,020)	216,538
Cash and cash equivalents at the end of the year	14	693,654	(361,020)
ADDITIONAL STATUTORY DISCLOSURE			
Increase / (decrease) in working capital		4,185,461	(2,181,586)

The notes on page 12 to 43 are an integral part of these consolidated financial statements.

1. Reporting entity

MPICO Limited, the holding company of the Group, is domiciled in Malawi. The registered office is at Old Mutual House, Robert Mugabe Crescent, P.O. Box 30459, Lilongwe. These consolidated financial statements comprise MPICO Limited and its subsidiaries (together referred to as Group). The Group is primarily in the business of development, rentals and management of properties.

2 Basis of accounting

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and also in accordance with the requirements of the Companies Act, 2013 of Malawi.

2.2 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for investment properties, which are included at fair value as explained in the accounting policy note 4.3 below. The principal accounting policies are set out in the following paragraphs.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Malawi Kwacha which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4.3 : Investment properties and measurement of fair values.

3. Adoption of new and revised International Financial Reporting Standards

3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the consolidated financial statements

The accounting policies are consistent with the prior year and the amendments to the standard have not had any impact on the company financial statements.

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements:

New or amended standards	Summary of requirements	Possible impact on the financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2015, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The actual impact of the standard on the Group consolidated financial statements in 2018 is not known and cannot reliably be estimated as it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting estimates and judgement that will be made in the future.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework to determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue, IAS 11 Construction contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.	The Group has started assessing the potential impact of the standard.
IFRS 16 *Leases*	IFRS 16 Leases- realizing its long outstanding goals of bringing leases on balance sheet for lessees all companies that lease major assets for use in business will see an increase in reported assets or liabilities. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers is also adopted.	The Group has started assessing the potential impact on the consolidated financial statements.
IAS 12 Income tax (Amended) Recognition of deferred tax assets for unrealised losses	IAS 12 income tax (amended) clarify the accounting for deferred tax assets for unrealized losses on debt instruments at fair value. IAS 12 income tax (amended) is effective for annual reporting period beginning on or after 1 January 2017 with early adoption permitted.	The Group has started assessing the potential impact on the consolidated financial statements.

4 Significant accounting policies

4.1 Basis of consolidation

The consolidated financial statements comprise MPICO Limited, MPICO Malls Limited, Capital Developments Limited, New Capital Properties Limited, Capital Investments Limited and Frontline Investments Limited.

Set out below is a list of all subsidiaries of the Group:

- Capital Developments Limited which provides property management and rental to Government and individual clients. The Company has 100 % controlling interest.
- New Capital Properties Limited which provides property management and rental to Government and individual clients. The Company has 100 % controlling interest.
- Capital Investments Limited which provides property management and rental to Government and individual clients. The Company has 50.75% controlling interest.
- Frontline Investments Limited which provides property management and rental to Government and individual clients. The Company has 69.5% controlling interest.
- MPICO Malls Limited which provides property management and rental to individual clients. The Company has 65.8% controlling interest.

Subsidiaries

Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealised income and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

4. Significant accounting policies (Continued)

4.2 Plant and equipment

Plant and equipment are measured at cost, less related accumulated depreciation and impairment losses.

Plant and equipment are depreciated on the straight line basis at rates that will reduce carrying values amounts to estimated residual values over the anticipated useful lives of the assets as follows:-

Furniture and equipment	5 years
Generators	10 years
Fixtures and fittings	5 years
Motor vehicles	4 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at every year-end. An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss on disposal of an item of plant and equipment in profit and loss.

Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

4.3 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes where applicable), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

The increase in the fair value of investment properties, net of the related deferred tax, is appropriated to a non-distributable reserve in compliance with profit distribution restrictions included in the Companies Act, 2013. In the event of disposal of the property held at fair value, the related portion of the reserve is transferred to the distributable reserve. The consolidated statement of profit or loss. and other comprehensive income will then report a profit or loss on disposal based on the difference between proceeds and the carrying value. A property is deemed to have been sold when formal Government consent to the sale is received and that investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal.

Property under construction (Capital Work in Progress)

Property under construction is measured at costs in accordance with IAS 16 Property Plant and Equipment, until either its fair value becomes reliably measurable or construction is complete, whichever is earlier. When the Group is able to measure its property at fair value reliably and /or construction is complete any difference between the fair value at that date and its previous carrying amount is recognized in profit or loss.

4. Significant accounting policies (Continued)

4.4 Finance costs and income

All finance income and cost which comprise of interest income, exchange gains/losses and interest expenses are taken to profit or loss as and when incurred. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4.5 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. Significant accounting policies (Continued)

4.5 Taxation (Continued)

Current and deferred tax for the year

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the tax is also recognized in other comprehensive income or directly in equity respectively.

4.6 Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's companies are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the entire Group operates. The consolidated financial statements are presented in Malawi Kwacha.

Transactions and balances

Transactions in currencies other than Malawi Kwacha are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

4.7 Defined contribution plan

MPICO Limited contributes to a defined contribution pension scheme administered by Old Mutual Malawi who are also a shareholder of the company. All payments made to the scheme are charged as an expense as they fall due.

4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

4. Significant accounting policies (Continued)

4.9 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated rebates and other similar allowances.

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease. Such rental income recognition commences when an occupancy agreement with a tenant is formalized.

4.10 Dividends from investments

Dividend from investments is recognized when the shareholders' right to receive payment has been established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4.11 Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortized cost the reversal is recognised in profit or loss.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (Group of units) on a pro rata basis.

4. Significant accounting policies (Continued)

4.11 Impairment (Continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss. A reversal of an impairment loss is recognised in profit or loss, unless it relates to property carried at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

4.12 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company.

Other financial liabilities

Other financial liabilities, including redeemable preference shares, dividend payable borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The company's redeemable preference shares are classified as financial liabilities because they bear non – discretionary dividend and are redeemable in cash or converted to shares at the options of the holder on maturity therefore give rise to a contractual obligation on the company.

De-recognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

4 Significant accounting policies (Continued)

4.13 Financial instruments

Classification

Financial instruments include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, employee benefit plans and provisions. Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are classified as follows:

Financial assets

The Group classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Loans and receivables

Loans and receivables comprises of trade receivables, staff loans and borrowings are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides goods or services directly to an organization with no intention of trading the receivable. Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs subsequently they are measured at amortized cost, which is the present value of future cash flows discounted at original effective interest rates less any impairment losses.

For receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, bank balances and short term fixed deposits with maturities of three months or less from the acquisition date.

Bank overdrafts are repayable on demand and form an integral part of the cash management and are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are carried at amortized cost

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the company's obligations specified in the contract expire or are discharged or cancelled.

4. Significant accounting policies (Continued)

4.13 Financial instruments (continued)

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

Investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and material changes therein, other than impairment losses and foreign currency differences on available for sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative

5 Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements, in conformity with IFRS, requires the use of cèrtain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the principal accounting policies of the Group. Estimates and judgments are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Valuation of investment properties

Investment properties are carried at fair value in accordance with IAS 40 *Investment Property*. Fair values have been determined through valuations carried out by T. G. Msonda and Associates, qualified and registered valuers.

Allowance for doubtful receivables

Allowance for doubtful receivables is based upon a policy which takes into account past transaction history with debtors and projected collections. Actual collection experience may differ from the current projections.

6 Operating segments

6.1 Operating segments

Operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segments and to assess their performance.

6.2 Products and services from which reportable segments derive their revenues

The Group has one principal line of business – rental and management of investment property. Information reported to and used by the Managing Director for decision making for the purposes of resource allocation and assessment of segment performance is more specifically focused on each of the Group's current **28** (2015: 28) investment properties. Though one of the properties contributed **K512**million (2015:K388 million) representing **14%** (2015: 13%) of the total rental revenue in the current year and its value at **K3,872** million (2015: K2,923 million), no single investment property contributes close to 75% of the total revenue from external customers.

6.3 Segmental information

The Group's investment property is situated principally in the two major cities in Malawi.

The following analysis shows the rental income, investment property values and property fair value movements by geographical mark.

6.4 Information about major customers

Included in total rentals income are rentals amounting to **K2,149** billion (2015: K2,038 billion) in respect of properties rented by the Government of Malawi. At rental value of **57%** (2015: 70%), the Government is the single largest tenant with the other rental revenues being evenly spread over several tenants.

	Rental income		**Property values**		**Fair value increase**	
	2016	2015	**2016**	2015	**2016**	2015
Blantyre	**285,211**	205,256	**2,187,293**	1,791,975	**395,083**	124,868
Lilongwe	**3,389,184**	2,643,254	**40,590,771**	35,196,775	**4,599,716**	2,387,415
Other markets	**107,858**	74,141	**732,378**	640,078	**92,300**	61,700
Total	**3,782,253**	2,922,651	**43,510,442**	37,628,828	**5,087,099**	2,573,983

6.4. Information about major customers (continued)

	MPICO Limited	MPICO Malls Limited	Capital Developments Limited	Frontline Investments Limited	New Capital Properties Limited	Capital Investments Limited	Total
Rental income							
Blantyre	285,211	-	-	-	-	-	285,211
Lilongwe	1 018,606	538,260	391,836	289,765	379,622	771,095	3,389,184
Other markets	103,012	-	-	-	4 846	-	107,858
Total	1,406,829	538,260	391,836	289,765	384,468	771,095	3,782,253
Properties values							
Blantyre	2,187,293	-	-	-	-	-	2,187,293
Lilongwe	8,840,539	20,343,000	2,103,848	1,870,500	2 186,500	5,246,384	40,590,771
Other markets	698,378	-	-	-	34 000	-	732,378
Total	11 726 210	20 343 000	2 103 848	1 870 500	2 220 500	5 246 384	43,510,442
Blantyre	395,083	-	-	-	-	-	395,083
Lilongwe	1,277,000	1,271,870	430,137	481,439	234,100	899,170	4,593,716
Other markets	87,500	-	-	-	4 800	-	92,300
Total	1 759 583	1 271 870	430 137	481 439	238 900	899,170	5,081,099

	2016	2015
7. **Investment properties**		
See accounting policy Note 4.3		
Valuation		
Freehold	**19,372,064**	15,748,341
Leasehold	**24,138,378**	21,880,487
Total investment properties	**43,510,442**	37,628,828
Movements in the valuation of investment properties are set out below.		
VALUATION		
Freehold		
At the beginning of the year	**15,748,341**	14,126,001
Additions	**235**	1,718
Fair value adjustment	**3,138,129**	1,620,622
At the end of the year	**18,886,705**	15,748,341
Leasehold		
At the beginning of the year	**21,880,487**	3,288,737
Additions	**794,280**	876
Fair value adjustment	**1,948,970**	953,361
Transfer from capital work in progress	**-**	17,637,513
At the end of the year	**24,623,737**	21,880,487
Total valuation	**43,510,442**	37,628,828

The registers of land and buildings are maintained by the Group open for inspection at the registered offices of the company as required by the Companies Act, 2013 of Malawi.

Investment properties were revalued to fair value as at 31 December 2016 on the basis set out in note 4.3 to the consolidated financial statements. The valuations were carried out by independent registered valuer, Mr. T.G. Msonda BSc (L Admin), MRICS, MSIM, Chartered Valuation Surveyors of T.G. Msonda & Associates, in accordance with the Appraisal and Valuation Standards laid down by the Royal Institution of Chartered Surveyors and the International Valuation Standards and the resultant fair value increase was taken to profit or loss in line with the IAS 40 Investments Property requirements.

Changes in fair values are recognised as gains in profit or loss and included in revenue. All gains are unrealized.

The fair value measurement for all of the investment properties has been categorised as level 3 fair value based in the input valuation technique use

The following assumptions were used by the valuer:

- The valuation were made on the basis of the open market value. The methods used are the revaluation income comparative method to determine the open market value.
- The open market value are the estimated amounts for which a property should be exchanged on the date of valua between a willing buyer and a willing seller dealing at arm's length.
- Yields range of 8% to 9.5%.
- Location of the prime offices land and land values.
- Current economic climate in the properties market.

7 **Investment properties** (Continued)
Included in the investment properties balance as at 31 December 2016 were properties encumbered as follows:

7.1 *Development House in Lilongwe valued at K753 million*
The property is the subject of a charge in favour of FDH Bank Limited to secure a sum of K300 million overdraft facility registered in 2013.

7.2 *Development House in Blantyre valued at K1.296 billion, Mpico House valued at K806 million, Tikwere House valued at K1.357 billion, MPICO House in Mzuzu valued at K679 million and Lingadzi House valued at K1.449 billion.*

These properties are the subject of a charge in favour of National Bank of Malawi to secure the following facilities:

7.2.1 A sum of K1.5 billion - loan;
7.2.2 An overdraft facility of K300 million.

All of the above facilities were entered into to finance the construction of the Mall (The Gateway). The holding company owns 65.8% in MPICO Malls Limited. However, since the loans were repaid as at year end, the parent company is in the process of removing the encumbrances.

7.3 *Centre House valued at K2.88 billion, Capital House in Lilongwe valued at K2.122 billion, Aquarius House valued at K773 million, Chief Kilipula valued at K959 million, Ekistics valued at K566 million, Old Mutual House valued at K1,011 million, Taurus House valued at K457 million and MPICO Gateway Mall valued at K20.34 billion.*
The properties are the subject of a charge in favour of Shelter Afrique and International Finance Corporation (IFC) to secure an initial loan of ZAR116.2 million in order to finance the construction of the Gateway Mall in MPICO Malls Limited. The loan was obtained in 2014.

8. Plant and equipment
See accounting policy Note 4.2

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
COST					
At 1 January 2016	**131,017**	**78,226**	**49,800**	**766,634**	**1,025,677**
Additions	**3,258**	**-**	**-**	**44,214**	**47,472**
Reclassification	**(41,856)**	**7,868**	**-**	**33,988**	**-**
Disposals	**-**	**-**	**-**	**(433)**	**(433)**
At 31 December 2016	**92,419**	**86,094**	**49,800**	**844,403**	**1,072,716**
At 1 January 2015	116,832	78,226	37,550	146,834	379,442
Additions	14,185	-	16,100	624,913	655,198
Disposals	-	-	(3,850)	(5,113)	(8,963)
At 31 December 2015	131,017	78,226	49,800	766,634	1,025,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016
In thousands of Malawi Kwacha

8. Plant and equipment (Continued)

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
ACCUMULATED DEPRECIATION					
At 1 January 2016	84,893	45,826	16,207	133,815	280,741
Charge for the year	4,554	6,577	10,836	48,545	70,512
Reclassification	(11,468)	(178)	-	11,646	-
Disposal	-	-	-	(137)	(137)
At 31 December 2016	77,979	52,225	27,043	193,869	351,116
At 1 January 2015	75,014	38,712	12,574	114,206	240,506
Charge for the year	9,879	7,114	7,483	24,356	48,832
Disposals	-	-	(3,850)	(4,747)	(8,597)
At 31 December 2015	84,893	45,826	16,207	133,815	280,741
CARRYING AMOUNT					
Carrying amount at 31 December 2016	14,440	33,869	22,757	650,534	721,600
Carrying amount at 31 December 2015	46,124	32,300	33,593	632,819	744,936

A register of the fixed assets register as required by Section 16 of the Malawi Companies Act, 2013 is maintained by the Group's registered office and is available for inspection.

9 Capital work in progress

See accounting policy Note 4.3	2016	2015
Opening balance	-	16,679,316
Additions	-	958,197
Transfer to investment properties (Note 7)	-	(17,637,513)
Closing balance	-	-

10. Related parties

The ultimate holding company is Old Mutual Malawi Limited. MPICO Limited has the following subsidiaries: MPICO Malls Limited, Frontline Investments Limited, New Capital Properties Limited, Capital Developments Limited and Capital Investments Limited.

MPICO Group had the following transactions and balances with Old Mutual, the parent company:

	2016	2015
Pension contribution costs for the year	58,565	51,388
Contributions towards Group life cover	18,422	2,569
Rental income and service charges for the year	53,520	33,450
Old Mutual Group internal auditors' remuneration (excluding expenses)	1,296	16,694

10. Related parties (Continued)

Rental income and service charges for the year relates to the rentals charged by MPICO Limited for the office space that Old Mutual occupies in Old Mutual House in Lilongwe. The service charges relate to Old Mutual's share of utilities paid by MPICO Limited that are then recovered from the tenants, charged based on office space occupied. These transactions are at arms-length.

	2016	2015
Secured staff loans	39,497	45,475
Dividend payable to non-controlling interest	4,575	-

Compensation of key management personnel

No loans were advanced to employees in key positions during the year (2015 Nil). At 31 December 2016 the total loans balance outstanding from employees in key positions was **K33.1 million** (2015: K45.4 million). Furthermore, emoluments paid to the employees in key positions during the year were as follows:

	2016	2015
Salary and pension	294,137	321,234

No loans and advances were granted to directors during the year.

Borrowings

	2016	2015
Old Mutual (Malawi)Limited (refer to Note 18)	6,443,684	5,960,024

11. Deferred tax

See accounting policy Note 4.5

Deferred tax assets/(liabilities)	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Revaluation on surpluses on investment properties	(573,362)	1,166,590	(6,791,697)	(5,649,453)	(7,365,060)	(4,482,863)
Tax lossses	2,849,156	-	(63,879)	302,161	2,785,277	302,161
Excess capital allowances	(58,520)	-	574,140	51,232	515,620	51,232
Total	2,217,274	1,166,590	(6,281,436)	(5,296,060)	(4,064,163)	(4,129,470)

In thousands of Malawi Kwacha

11. Deferred tax assets / (liabilities) (Continued)
Deferred tax assets / (liabilities) movement in the year

Year ended 30 December 2016	Balance at 1 January	Recognized in Profit or loss	Balance at 31 December
Revaluation of investment properties	**(4,482,863)**	**(2,882,197)**	**(7,365,060)**
Tax losses	**302,161**	**2,483,116**	**2,785,277**
Excess capital allowances	**51,232**	**464,388**	**515,620**
Total	**(4,129,470)**	**65,307**	**(4,064,163)**
Year ended 31 December 2015			
Revaluation of Investments properties	(4,483,662)	799	(4,482,863)
Tax losses	(148,736)	450,897	302,161
Excess capital allowances	(41,681)	92,913	51,232
	(4,674,079)	544,609	(4,129,470)

12. Trade and other receivables

	2016	2015
See accounting policy Note 4.13		
Rental and service charges	**3,819,072**	2,061,366
Prepaid property expenses	**1,204,570**	35,826
Valuation and consultancy receivables	**-**	28,822
Accrued interest on rentals	**2,502,681**	69,418
Staff receivables	**38,404**	30,238
Other receivables (VAT)	**214,982**	44,120
Allowance for doubtful receivables	**(45,248)**	(37,828)
Total receivables	**7,734,461**	2,231,962
Movement in allowance for doubtful receivables		
Balance at beginning of the year	**37,828**	13,092
Amounts written-off during the year	**-**	(2,248)
Amounts recovered during the year	**(21,096)**	(4,878)
Increase in allowance recognized in the profit or loss	**28,516**	31,862
Balance at end of the year	**45,248**	37,828

In determining the recoverability of rentals receivable, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. Except for the Government which accounts for approximately 57% (2015: 70%) of total rental income, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further impairment allowance required in excess of the allowance already made for doubtful receivables.

Interest is charged on receivables in respect of outstanding rentals at 4% above the prevailing commercial bank lending rate. As at year end the amount outstanding from Government was **K5,916 million** (2015: K2,090 million). The total interest charged on overdue Government rentals and other tenants amounted to **K2,494 million** (2015: K372 million).

The Group has impaired all receivables over 90 days, except for Government rental receivables .This is because historical experience shows that receivables that are past due beyond 90 days are generally not recoverable. However, receivables due from Government are generally recoverable despite significant delays in settlement of amounts due and these are covered by interest on outstanding balance to counter loss of value.

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		2016	2015
13.	**Interest income**		
	See accounting policy Note 4.10		
	Interest on rental arrears	2,494,473	371,717
	Interest from bank deposits	85,115	27,617
		2,579,588	399,334

14. Cash and cash equivalents as stated in the statement of financial position
See accounting policy Note 4.13

	2016	2015
Funds at call and on deposit	726,625	1,842
Bank balances and cash	127,697	258,261
	854,322	260,103
Bank overdraft	(160,668)	(621,123)
Cash and cash equivalents as presented in statements of cash flows	693,654	(361,020)

The Group has an overdraft facility of **K300 million** (2015: K300 million) with FDH Bank Limited and K300 million with National Bank of Malawi. The FDH facility is secured on Development House at the rate of 2% above the FDH Bank base lending rate as per note 7.1. The facility was due for renewal on 31 December 2016 and has been renewed subsequent to year end. The National Bank of Malawi facility is secured as per note 7.2 at the rate of 1.5% below National Bank of Malawi base lending rate.

The deposits accounts are maintained with National Bank of Malawi Limited and attract interest at an average **9%** (2015; 18%) per annum.

15. Share capital
See accounting policy Note 4.12

	2016	2015
Authorised:		
3,000,000,000 Ordinary shares of 5t each		
(2015: 1,200,000,000 Ordinary Shares of 5t each)	150,000	60,000
Issued and fully paid:		
2,298,047,460 Ordinary shares of 5t each		
(2015: 1,149,023,730 Ordinary Shares of 5t each)		
In issue at 1 January	57,451	57,451
Ordinary shares issue during the year	57,451	-
Total issued and fully paid share capital	114,902	57,451

During the year the company made a rights offer on the basis of one (1) rights offer shares of every one (1) MPICO share held by shareholders.

In thousands of Malawi Kwacha

16. Share premium

See accounting policy Note 4.12

	2016	2015
At the beginning of the year	2,742,423	2,742,423
Shares issued	8,626,938	-
At the end of the year	11,369,361	2,742,423

During the year the company made a rights offer at a subscription price of K7.83 per MPICO share on the basis of 1 (one) rights offer shares of every 1 (one) MPICO share held by shareholders. Nominal value of each ordinary being K0.05, the transaction gave rise to a share premium of K8,939 billion which was credited to share premium account less associated transaction costs of K312 million in accordance with IAS 32 and Companies Act of Malawi.

17a. Premium on redeemable shares

See accounting policy Note 4.12

	2016	2015
Premium on redeemable preference shares	3,904,378	3,904,378

The redeemable preference shares do not carry the right to vote. Holders of redeemable preference shares participate in the company's residual assets only to the extent of the face value of the shares.

17b. Dividend payable to non – controlling interest - preference shares

	2016	2015
At the beginning of the year	1,301,308	-
Interest on redeemable preference shares	1,477,768	1,301,308
	2,779,076	1,301,308

The redeemable preference shares have a maturity of 7 years. The company is obliged to pay to the holder of the shares a guaranteed annual cumulative dividend at the rate of the 365 day Treasury Bills yield plus 9% until maturity.

In thousands of Malawi Kwacha

18. Borrowings

See accounting policy Note 4.8

2016	National Bank of Malawi	Old Mutual (Malawi) Limited	International Finance Corporation (IFC)	Shelter Afrique	Total
At 1 January 2016	1,746,467	5,960,024	2,702,498	2,053,446	12,462,435
Additions during the year	985,936	1,401,200	-	-	2,387,136
Accrued interest	191,993	2,418,161	-	-	2,610,154
Exchange loss	-	-	674,348	425,427	1,099,775
Repayments during the year	(2,182,370)	(3,335,701)	(347,948)	(263,672)	(6,129,691)
At December 2016	742,026	6,443,684	3,028,898	2,215,201	12,429,809
Amounts due after 1 year	740,545	5,879,997	2,689,263	1,899,138	11,208,943
Amounts due within 1 year	1,481	563,687	339,635	316,063	1,220,866
Total borrowings	742,026	6,443,684	3,028,898	2,215,201	12,429,809
2015					
At 1 January 2015	1,673,705	4,059,017	2,681,100	2,025,000	10,438,822
Additions during the year	-	496,000	-	-	496,000
Accrued interest	137,523	1,505,007	-	-	1,642,530
Exchange loss	-	-	184,121	144,851	328,972
Repayments during the year	(64,761)	(100,000)	(162,723)	(116,405)	(443,889)
At December 2015	1,746,467	5,960,024	2,702,498	2,053,446	12,462,435
Amounts due after 1 year	1,575,572	5,960,024	2,448,214	1,790,516	11,774,326
Amounts due within 1 year	170,895	-	254,284	262,930	688,109
Total borrowings	1,746,467	5,960,024	2,702,498	2,053,446	12,462,435

In thousands of Malawi Kwacha

18. Borrowings (continued)

Borrowings summary

	2016	2015
Balance at 1 January	**12,462,435**	10,438,822
Additions during the year	**2,387,136**	496,000
Exchange loss/gain on foreign loans	**1,099,775**	339,189
Accrued interest	**2,610,154**	1,632,313
Repayments during the year	**(6,129,691)**	(443,889)
Balance at 31 December	**12,429,809**	12,462,435
Amounts due after 1 year	**11,208,943**	11,774,326
Amounts due within 1 year	**1,220,866**	688,109
Total borrowings	**12,429,809**	12,462,435

18.1 K1.5 billion was borrowed from National Bank of Malawi. The amount is subject to interest charges at 1.5% below the bank's base lending rate and is repayable over a period of 10 years with a moratorium of 2 years. The loan has since been repaid.

18.2 K986 million was borrowed from National Bank of Malawi and in turn advanced to MPICO Malls Limited for the latter to pay final invoices of the main contractor and also to carry out fittings at the Gateway Mall.

18.3 K1.583 billion was borrowed from Old Mutual Malawi (related party). The amount is subject to interest charges at 1% above the National Bank of Malawi base lending rate. The transaction is at arm's length. The facility was entered to finance the construction of the Gateway Mall.

18.4 Included in the borrowings figure is an amount of K1.4 million obtained from National Bank of Malawi to finance the purchase of the Managing Director's car. The amount is subject to interest at the bank's base lending rate. The last instalment is due for repayment in January 2017.

18.5 K1.4 billion from Old Mutual Malawi (related party). The amount is subject to interest charges at 1% above National Bank of Malawi base lending rate. The transaction is at arm's length.

18.6 ZAR66.2 million and ZAR50 million from International Finance Corporation (IFC) and Shelter Afrique respectively. The facilities are subject to interest charges at 3 months JIBAR plus 5.5% per annum.

18.7 Securities for these borrowings have been outlined under note 7 to the consolidated financial statements.

In thousands of Malawi Kwacha

		2016	2015
19.	**Trade and other payables**		
	See accounting policy Note 4.13		
	Accruals	**114,817**	817,000
	Prepaid rentals	**210,371**	145,090
	Other payables	**288,501**	68,648
	Property expenses payables	**169,471**	173,293
		783,160	1,204,031

Accruals are in respect of various expenses incurred but whose invoices had not yet been received or received but not recognised as at year-end.

Property expenses payables relate to unpaid but recognised invoices for property maintenance and other directly attributable property management costs. No interest is chargeable on these payables and there is no specific allowed credit period from the date of the invoice but the group's financial risk management policies include ensuring that invoices are paid within 30 days.

20. Changes in fair value of investment properties

See accounting policy Note 4.3

During the year, a fair value adjustment to investment properties has been credited and the associated tax has been charged to profit or loss. To ensure compliance with profit distribution provisions under company law in Malawi, the net of tax balance has been transferred to a non-distributable reserve. This is analysed as follows:

Fair value adjustment credited to:

	2016	2015
Profit or loss	**5,087,099**	2,573,983
Related deferred tax	**(1,525,602)**	(667,553)
Non- controlling interests	**(718,665)**	(278,376)
Amount transferred to non-distributable reserves	**2,842,832**	1,628,054

In thousands of Malawi Kwacha

21. Operating profit before income tax
Profit before taxation is arrived at after charging/(crediting):-

		2016	2015
Auditors' remuneration		**37,310**	16,695
Group internal auditors' remuneration		**1,296**	13,000
Depreciation of plant and equipment		**70,512**	48,832
Profit on disposal of non-current assets		**90**	127,119
Directors' remuneration -	fees for services as directors	**32,005**	7,612
-	for managerial services	**113,547**	58,788
Bad debts		**28,516**	31,862
Pension costs		**58,565**	51,388
Staff costs		**633,004**	508,474

22a. Income tax credit / (expense)

	2016	2015
Income tax based on taxable profits at 30% (2015:30%)	**1,151,920**	346,528
Deferred tax liability movement	**(65,307)**	(544,609)
Dividend tax	**-**	81,516
Total income expense / (credit)	**1,086,613**	(116,565)

Reconciliation of effect tax rates to standard rates

		2016		2015
Profit before tax income		**3,075,252**		659,942
Income tax based on tax profits	**30%**	**922,576**	30%	197,983
Non-deductible expense	**14%**	**417,402**	69%	456,671
Income not subject to tax	**(8%)**	**(235,739)**	16%	102,910
Other temporary differences	**(1%)**	**(17,626)**	(132%)	(874,129)
Effective tax rate	**35%**	**1,086,613**	(18%)	(116,565)

22b Income tax recoverable

	2016	2015
As at 1 January	**426,443**	215,344
Charge for the year	**727,515**	990,341
Paid during the year	**(369,861)**	(779,242)
As at 31 December	**784,097**	426,443

In thousands of Malawi Kwacha

23. Property and administration expenses

	2016	2015
Net property expenses	513,607	357,408
Salaries, benefits and administration costs	796,264	619,930
Other costs	434,810	252,791
Total property and administration expenses	**1,744,681**	1,230,129

Other costs include audit fees paid to both internal and external Auditors, depreciation charges, listing costs, transfer secretaries expenses and legal and professional fees.

24. Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2016	2015
Distributable profit	(884,676)	(694,913)
Non-distributable profit	2,842,832	1,628,054
Profit for the year attributable to equity holders of the parent	1,958,156	933,141
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,298,047	1,149,024
Earnings per share (K)	0.85	0.81
Analysed as		
- Distributable (K)	(0.39)	(0.61)
- Non- distributable (K)	1.24	1.42

25. Reconciliation of profit before taxation to net cash inflow from operating activities

	2016	2015
Profit before taxation	3,075,252	659,942
Increase in fair value of investment properties	(5,087,099)	(2,573,983)
Interest receivable	(2,579,588)	(399,334)
Interest payable	4,110,941	2,513,082
Interest on redeemable preference shares	1,477,766	1,301,308
Depreciation	70,513	48,832
Changes in trade and other receivables	(5,502,499)	362,053
Changes in trade and other payables	(420,873)	34,293
Profit on disposal of non-current assets	(90)	(127,119)
Net cash (outflow)/inflow from operating activities	(4,855,677)	1,819,074

In thousands of Malawi Kwacha

26. Group subsidiaries

See accounting policy Note 4.1

(a) NCI in subsidiaries

The following table summarises the information relating to the Group's subsidiaries that have material non-controlling interest (NCI) before any intra-Consolidated eliminations.

2016	Capital Investment Limited	Frontline Investments Limited	MPICO Malls Limited	Total
NCI percentage	49.25%	30.5%	34.20%	-
Non-current assets	5,261,652	1,876,310	23,127,764	30,262,726
Current assets	2,620,527	993,140	1,515,996	5,129,663
Non-current liabilities	(1,534,405)	(545,579)	(19,434,984)	(21,514,968)
Current liabilities	(825,765)	(346,945)	(5,096,084)	(6,268,794)
Net assets	5,522,009	1,976,926	112,692	7,608,627
Revenue	2,720,423	1,162,281	1,828,217	5,710,921
Profit / (loss)	1,819,279	770,509	(3,218,829)	114,858
Total comprehensive income	1,819,279	770,509	(3,218,829)	(570,673)
Profit allocated to NCI	895,995	235,005	(1,100,518)	30,482
Net increase (decrease) in cash and cash equivalents	(11,436)	(1,261)	(206,074)	(218,771)
2015				
NCI percentage				
Non-current assets	4,367,548	1,395,899	20,028,471	25,791,918
Current assets	896,952	357,973	410,581	1,665,506
Non-current liabilities	(1,265,514)	(401,267)	(14,072,477)	(15,739,258)
Current liabilities	(296,256)	(131,188)	(3,035,053)	(3,462,497)
Net assets	3,702,730	1,221,417	3,331,522	8,255,669
Revenue	1,161,875	421,325	1,054,567	2,637767
Profit/ (loss)	762,637	262,072	(1,759,877)	(735,168)
Total comprehensive income	762,637	262,072	(1,759,877)	(735,168)
Profit allocated to NCI	375,599	79,932	(612,165)	(156,634)
Net increase (decrease) in cash and cash equivalents	33,808	(633)	(547,774)	447,3696

26b. Non-controlling interest

Movement for the year	2016	2015
At 01 January	1,434,274	1,753,796
Profit allocated to NCI	30,382	(156,634)
Dividend paid to NCI	(4,575)	(162,888
	1,460,181	1,434,274

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27. Financial risk management

Categorization of financial instruments

The analysis below sets out the Group's classification of financial assets and liabilities and their fair values including accrued interest.

	2016	2015
Financial assets		
Trade and other receivables	**7,734,461**	2,231,962
Secured staff loans	**39,497**	45,475
Funds at call and on deposit	**726,625**	1,842
Bank balance and cash	**127,697**	258,261
Total financial assets	**8,628,280**	2,537,540
Financial liabilities		
Borrowings	**12,429,809**	12,462,435
Premium on redeemable preference shares	**3,904,378**	3,904,378
Dividend payable to minority share - preference	**2,779,074**	1,301,308
Trade and other payables	**783,160**	1,204,031
Bank overdraft	**160,668**	621,123
Total financial liabilities	**20,135,825**	19,493,275

The Group has exposure to the following risks arising from its transactions in financial instruments:

- Capital risk
- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Group's management of capital. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the consolidated financial statements.

Below is an analysis of how the Group manages the risk associated with the following relevant financial instruments.

(a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of mainly equity comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

27. Financial risk management (continued)

(a) Capital risk management (continued)

The Board reviews the capital situation on an annual basis and based on each review, the Group will balance its overall capital structure through the payment of dividends and raising finance through borrowings or repaying any existing borrowings. There are no externally imposed capital requirement a and during the year the Group raise additional capital through right issues.

(b) Market risk
(i) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies hence it is exposed to exchange rate fluctuations. The Group is exposed to foreign currency loans obtained from IFC and Shelter Afrique for ZAR56.4 million and ZAR41.3 million respectively. The amounts were used for the construction of the Mall.

As at year end, the Group had the following foreign currency exposure.

Liabilities

	2016	2015
South African Rand	ZAR97,703	ZAR109,625

(ii) Interest rate risk management

The Group is exposed to interest rate risk as it has significant borrowings. All borrowings are at commercial rates based on the bank base lending rate. The Group also charges interest on overdue rentals from government at the prevailing bank base lending rate. Changes to the base lending rate would have a significant impact on the results for the year.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and ensuring that tenants pay rentals in advance, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit worthiness of its tenants is continuously monitored. Excluding Government rentals, receivables are from a large number of tenants, spread across diverse sectors and geographical areas.

Apart from the exposure to Government, the group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk exposure is managed by proactively engaging Government in good time on amounts due from it and agreeing on a settlement plan for the outstanding balance. The credit risk on liquid funds is limited because the counterparties are financial institutions in a highly regulated industry.

The carrying amount of receivables (note 12) and cash and cash equivalents (note 14) recorded in the consolidated financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk.

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27. Financial risk management (continued)

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual, undiscounted maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities and cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Carrying amounts	Gross Nominal inflow/outflow	1 -3 months	3 - 12 months	Over 12 months
2016					
Liabilities					
Trade and other payables	783,160	783,160	783,160	-	-
Borrowings	12,429,809	12,429,809	565,168	655,698	11,208,943
Dividend payable to minority - preference	2,779,076	2,779,076	-	-	2,779,076
Premium on redeemable preference shares	3,904,378	3,904,378	-	-	3,904,378
Bank overdraft	160,668	160,668	160,668	-	-
Total	20,057,091	20,057,091	1,508,996	655,698	17,892,397
2015					
Liabilities					
Trade and other payables	1,204,031	1,204,031	1,204,031	-	-
Borrowings	12,462,435	12,462,435	243,055	445,054	11,774,326
Premium on redeemable preference shares	3,904,378	3,904,378	-	-	3,904,378
Dividend payable to minority preference	1,301,308	1,301,308	-	-	1,301,308
Bank overdraft	621,123	621,123	121,123	500,000	621,123
Total	19,493,275	19,493,275	1,568,209	945,054	16,493,275

27. Financial risk management (Continued)

(e) Accounting classifications and fair values of financial instruments

(i) Valuation models

The group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1**: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data
- **Level 3**: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

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27. Financial risk management (Continued)

(ii) Fair value of financial instruments– fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statements of financial position.

31 December 2016		Carrying amount				Fair value			
Assets	Note	Loans and receivables	Fair value	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Other assets measured fair value									
Investment properties	6&7	-	43,510,442	-	43,520,442	-	-	43,510,442	43,510,442
		-	43,510,442	-	43,520,442	-	-	43,510,442	43,510,442
Financial assets not measured fair value									
Cash and cash equivalents	14	854,322	-	-	854,322	-	-	-	-
Secured staff loans	10	39,497	-	-	39,497	-	-	-	-
Trade and other receivables	12	7,734,457	-	-	7,734,457	-	-	-	-
Total		8,628,276	-	-	8,628,276	-	-	-	-
Financial liabilities not measured at fair value									
Borrowings	18	12,429,809	-	-	12,429,809	-	-	-	-
Trade and other payables	19	-	-	783,160	783,160			-	-
Redeemable preference shares	17	-	-	3,904,378	3,904,378	-	-	-	-
Dividend payable to minority		-	-	2,779,076	2,779,076	-	-	-	-
Bank over draft	14	160,668	-	-	160,668	-	-	-	-
Total		12,590,477	-	7,466,614	20,057,091	-	-	-	-

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27. Financial risk management (continued)

f) Categories of financial instruments

	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2016				
Cash and cash equivalents	854,322	-	854,322	854,322
Secured staff loan	39,497	-	39,497	39,497
Trade and other receivables	7,734,461	-	7,734,461	7,734,461
Total	8,628,276	-	8,628,280	8,628,280
Trading liabilities				
Borrowings	-	12,429,809	12,429,809	12,429,809
Premium on redeemable preference shares	-	3,904,378	3,904,378	3,904,378
Dividend payable to minority		2,779,076	2,779,076	2,779,076
Trade and other payables		783,160	783,160	783,160
Bank overdraft	-	160,668	160,668	160,668
Total	-	20,057,091	20,057,091	20,057,091
31 December 2015				
Cash and cash equivalents	260,103	-	260,103	260,103
Secured staff loan	45,475	-	45,475	45,475
Trade and other receivables	2,231,962	-	2,231,962	2,231,962
Total	2,537,540	-	2,537,540	2,537,540
Trading liabilities				
Borrowings	-	12,462,435	12,462,435	12,462,435
Trade and other payables	-	1,204,031	1,204,031	1,204,031
Premium on redeemable preference shares	-	3,904,378	3,904,378	3,904,378
Dividend payable to minority		1,301,308	1,301,308	1,301,308
Bank overdraft	-	621,123	621,123	621,123
Total	-	19,493,275	19,493,275	19,493,275

In thousands of Malawi Kwacha

28. Operating lease arrangements

The Group as lessor

Leasing arrangements

Operating leases relate to the investment property owned by the Group with lease terms of between 1 and 10 years, with an option to extend the lease term. All operating lease contracts contain market based rental review clauses in the event that the lessee exercises its option to renew. Additionally, the rentals are renegotiated on an annual basis based on prevailing market conditions. The lessees do not have options to purchase the property at the expiry of the lease period.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounts to **K3.8 billion** (2015: K2.9 billion).

29. Contingent liabilities

There are a number of proceedings outstanding against the Group as at 31 December 2016. If defence against these actions is unsuccessful, the claims and litigation costs could amount to **K14 million** (2015: K54 million).

	2016	2015
30. Capital commitments		
Authorised	**665,600**	318,450

Capital expenditure commitments are financed from internal resources, existing facilities as well as external sources.

31. Exchange rates and inflation

The average of the period-end buying and selling rates of the foreign currencies most affecting the performance of the Group are stated below, together with the National Consumer Price Index, which represents an official measure of inflation.

	2016	2015
Kwacha/ US	**725.4**	664.5
Kwacha/Rand	**50.4**	41.9
Kwacha/ GBP	**878.2**	973.9
Kwacha/Euro	748.8	717.8
Inflation (%)	**19.9%**	24.9%

As at signing of these financial statements the above rates had moved as follows:

	2016	2015
Kwacha/ US	**725.4**	686.4
Kwacha/Rand	**53.3**	44.7
Kwacha/ GBP	**891.8**	968.9
Kwacha/Euro	**760.5**	767.4
Inflation (%)	**20%**	23.5%

32. Subsequent events

Subsequent to the reporting date, no events have occurred necessitating adjustments to or disclosure in these consolidated financial statements.