MPICO

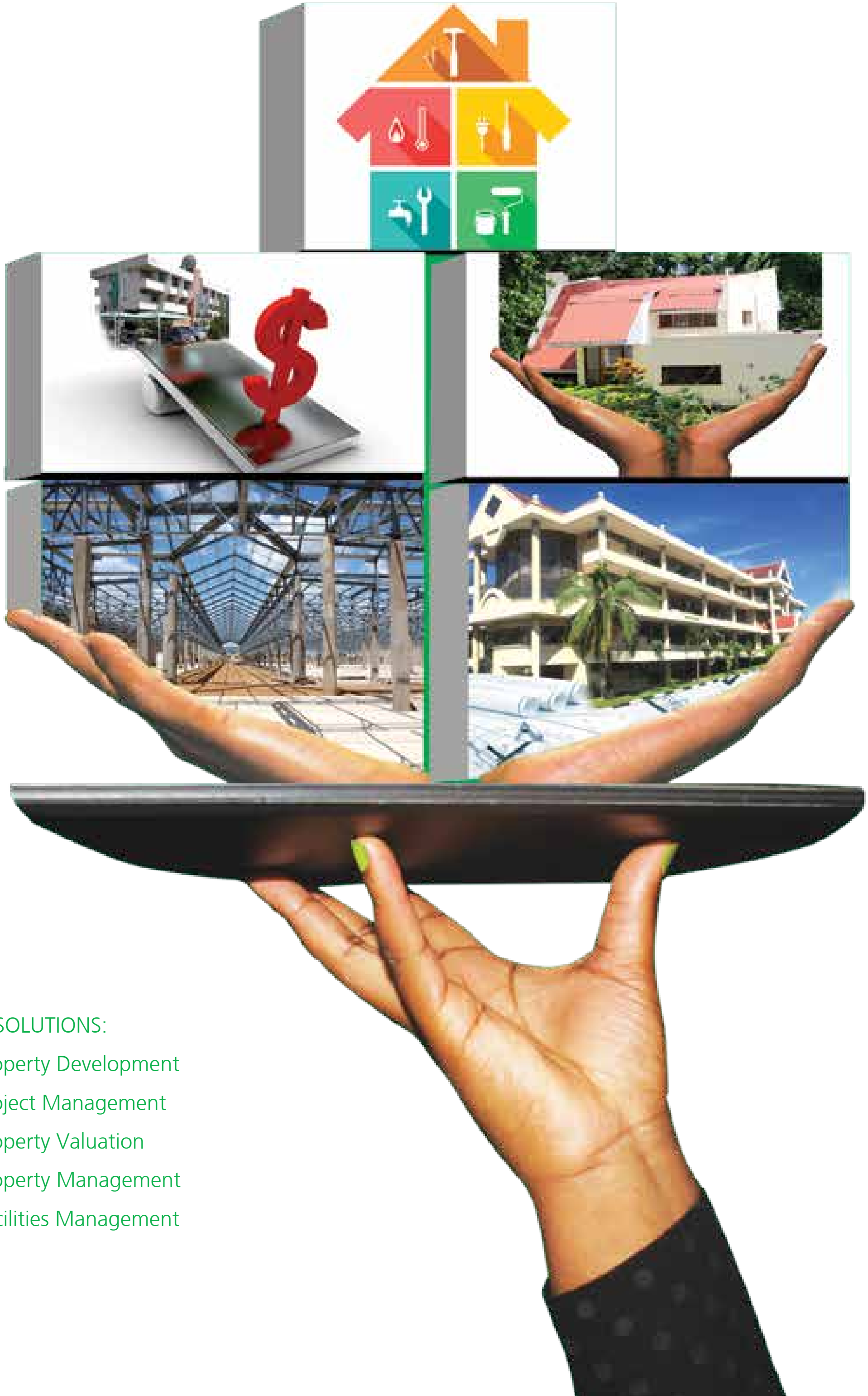
ANNUAL REPORT 2018

A member of OLDMUTUAL group




MPICO PLC
ANNUAL REPORT 2018

A One-Stop Landed Property Solution Provider



OUR SOLUTIONS:

- → Property Development
- → Project Management
- → Property Valuation
- → Property Management
- → Facilities Management

CONTENTS

CHAIRPERSON'S STATEMENT

ECONOMIC ENVIRONMENT

The economy in 2018 was generally stable. GDP annual growth rate, however, reduced to about 4.0% in 2018 from 5.2% in 2017. This was on account of poor growth recorded in the agricultural sector. This sector grew by only 0.9% in 2018 compared to 6.1% in 2017. This followed poor rains and the fall of army worms in 2017/18 season that affected most crops including maize. Annual headline inflation increased to 9.9% in 2018 from 7.7% in 2017. Official gross foreign currency reserves were US$750.1 million as at 31st December 2018 compared to US$749.7 million at the end of 2017, representing 3.6 months' import cover in both 2018 and 2017. The Policy Rate was maintained at 16% p.a. throughout the year 2018. Commercial banks consequently maintained their annual lending rates at an average rate of 24.8% in 2018. The Malawi Kwacha was stable against the US Dollar.

According to the Malawi Stock Exchange, the market was buoyant for the second consecutive year as it registered a positive return on index of 34.19% (33.42% in US$ terms) compared to 62.14% (62.09% in US$ terms) in 2017. The market also recorded an increase in both total traded value and volume compared to the corresponding period 2017.

The year was not without its challenges. The major issue being country-wide interruption in utility provisions. Electricity blackouts and water shortages affected all sectors of the economy. As a result, once again most of our properties had to run on diesel generators for lengthy periods which turned out to be costly for the business.

Government debt levels owing to the Group in the preceding years have been very high. It is pleasing to note that this significantly reduced in 2018 following significant payments by Government. The MPICO Group was owed K2.3 billion as at 31st December 2018 compared to K8.0 billion as at 31st December 2017.

PROPERTY MARKET IN MALAWI

The effective disposable income of the populace did not significantly improve to positively affect the businesses for our tenants. This coupled with laxity of By-Laws enforcement by local authorities led our tenants to seek office space in undesignated areas. Consequently, this negatively affected commercial property occupancy, sales, new construction projects and rent growth.

The rental reviews during 2018 averaged 13% across the Group portfolio. The property portfolio had same vacancy rates as in 2017 at 5%. The Gateway occupancy levels continued to grow and hold at 96% against the planned 95%. We are pleased with progress being made and the continued interest by prospective tenants as well as the growth in foot traffic.

The Group profit after tax increased to **MK6.8 billion** in 2018 from MK5.1 billion in 2017, representing a year-on-year increase of 33%.

GROUP PERFORMANCE

Overall Group results were good. Rental income increased by 13% to K6.2 billion from K5.5 billion in 2017. Total income increased by 3.6% to K13.3 billion in 2018 from K12.9 billion in 2017. This was due to rent reviews, fair value gains and improved occupancy at The Gateway.

Total expenditure for the year decreased to K4.3 billion in 2018 from K5.8 billion in 2017 largely due to lower finance costs emanating from reduced borrowings.

During the year, the Group continued the balance sheet restructuring efforts that started in 2015. One of the subsidiaries, MPICO Malls Limited refinanced its foreign loans by converting these into a local loan.

The Group profit after tax increased to MK6.8 billion in 2018 from MK5.1 billion in 2017, representing a year-on-year increase of 33%.

HUMAN RESOURCES

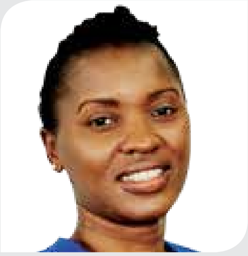
The Group was able to recruit and retain suitable employees. There is an Employee Assistance Programme aimed at assisting employees in health and financial well-being thereby increasing their productivity. The Group also continues to support training needs of employees.

PROSPECTS FOR 2019

The economy may be adversely impacted by effects of bad weather on agricultural production in some parts of the country. Water and electricity availability also continue to be challenges to the country's growth prospects.

The future of MPICO Group looks bright. The Group is committed to ensuring that its clients are provided with relevant property solutions and that there is growth in Shareholder value. The Board and Management have put in place strategic plans and reviews to ensure that these objectives are achieved.

DIRECTORS



Mrs. E. Jiya, Chairperson

Mrs. Jiya is a holder of MSc. in Strategic Management from University of Derby and Bachelor of Business Administration from University of Malawi. She is Group CEO of Old Mutual Malawi Limited. Previously, she was the Managing Director of the Old Mutual Life Assurance Company (Malawi) Limited (OMLAC), a position she held for 5 years. She has also held senior managerial positions at OMLAC and BP Malawi Limited. Mrs. Jiya is an associate member of the Chartered Insurance Institute (The CII) UK and associate of the Chartered Institute of Marketing. In addition to serving on the Old Mutual and MPICO Group boards, she also sits on the boards of Malawi Telecommunications Limited, Open Connect Limited and FDH Financial Holdings Limited.

Mr. D. Kafoteka, Managing Director

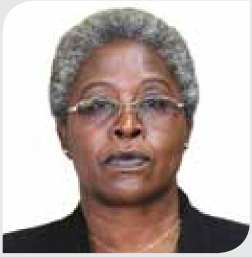
Mr. Kafoteka is the Managing Director for MPICO plc and its subsidiaries. He was previously the Finance Director of Old Mutual Malawi Limited. His experience in executive management spans more than 20 years having worked as Chief Financial Officer for many companies such as Petroleum Importers Limited, Malawi Pharmacies Limited and Peoples Trading Centre/ McConnell. He currently serves on the Boards of National Bank of Malawi, Telekom Networks Malawi and Press Corporation Limited. He is a Certified Chartered Accountant (FCCA, UK), CPA (Mw) and holds a Bachelors of Commerce in Accounting (Bcom) from the University of Malawi Polytechnic, and a Diploma in Business Studies.

Mr. A. G. Barron, Non-Executive Director

Mr. Barron is a farmer and the Managing Director of Mbabzi Estates Limited and Lincoln Investments (Pvt) Limited, a position that he has held since 1989. He holds a Higher National Diploma in Business Studies from the University of West England and has extensive expertise in real estate. He also has a number of other business interests and is a director at Press Corporation Limited, Auction Holdings Limited, Seed-Co Limited, Plantation House Investments Limited and he is Chairman of the Board of Malawi Leaf Limited. He is an alternate councillor at the Tobacco Association of Malawi.

Mr. C. Kapanga, Non-Executive Director

Mr. Kapanga is a Chartered Insurer (UK.) He also holds an MBA degree (University of Cape Town 2005.) He is one of the earliest Malawians to qualify as an Associate of the Chartered Insurance Institute (ACII UK 1985) and has over 35 years of international experience in the insurance industry.



Mrs. V. Masikini, Independent Non-Executive Director

Mrs. Masikini is a holder of Chartered Institute of Management Accountant (CIMA) certification. She is a Group Finance and Administration Manager of Blantyre Print and Publishing Company with over 30 years of practical experience.

Ms. E. Salamba, Non-Executive Director

Ms. Salamba is a holder of MSc. in Leadership and Change Management from Leeds Metropolitan University and Bachelor of Commerce (Business Administration) from the University of Malawi, Polytechnic. She currently works with National Bank of Malawi plc and is the Head of Credit Management. She has held different positions within Credit at National Bank of Malawi plc and has also worked with Standard Bank plc. Her banking experience spans over 20 years.

Ms. C. Kalaile, Non-Executive Director

Ms. Kalaile is a holder of an LLM in Commercial Law fom Cardiff University and an LLB (Hons) from University of Malawi, Chancellor College. She also completed her Management Advancement Programme with the University of Wits in 2013. Ms. Kalaile currently works for Old Mutual as Corporate Governance Manager and Company Secretary, a position she has held since 2008. She previously worked for Ministry of Justice for 7 years as a State Advocate. Her legal career spans over 15 years.

Mr. M. Mikwamba, Non-Executive Director

Mr. Mikwamba is an investment professional with over 15 years experience in investment management and capital markerts in Malawi. He is a CFA Charter holder, Fellow Certified Chartered Accountant (FCCA, UK) and a holder of Bachelor of Accountancy Degree (Bacc) from the University of Malawi. He also completed his Management Advancement Programme with the University of Wits in 2013. He sits on FDH Group of companies boards and is currently Chairman of FDH Financial Holdings Limited. Mr. Mikwamba has held different positions in Old Mutual Malawi Limited and is currently the Managing Director of Old Mutual Investment Group in Malawi. His previous employments include Chief Executive Officer of Stockbrokers Malawi Ltd and Head of Investments and Projects for NICO Holdings Ltd.

SENIOR MANAGEMENT

Mr. C. Katulukira, Financial Controller/Company Secretary

Mr Katulukira is a Fellow of the Association of Chartered Certified Accountants (FCCA, UK), CPA (Mw) and a holder of Bachelor of Commerce (Accountancy) and a Diploma in Business Studies from the University of Malawi. He is responsible for the Group's Finance & Accounting and Secretarial functions. He has 25 years of experience with 17 years in senior management positions.

Mr. E. Jambo, Operations Manager

Mr Jambo has an MSc in Real Estate from the University of Pretoria, an MBA from ESAMI and a Bachelors of Arts in Public Administration from the Chancellor College. He is a registered valuation surveyor with 20 years' experience in Real Estate. He is currently responsible for leasing, facilities management, property valuation and human resource management at MPICO.

Mrs. E. Nyasulu, Operations & Marketing Manager

Mrs. Chapinduka Nyasulu is a holder of an MBA obtained from the University of Reading (UK). She has an MSc Real Estate (University of Pretoria) and a Bachelor Business Administration (BBA) from the University of Malawi. Mrs. Nyasulu completed Management Advancement Programme with Wits University in 2015. She is a registered & an experienced real estate practitioner with 19 years' work experience and at present she is an Operations and Marketing Manager responsible for the overall management of the Gateway Mall, marketing and management of 3rd party properties for the MPICO Group. She is currently serving the second term as the President of the Surveyors Institute of Malawi. She also chairs the Ethics & DisciplinaryCommittee of the National Construction Industry (NCIC) Board and sits on National Urban Planning Board.

Mr. R. Butao, Senior Accountant

Mr. Butao is a Fellow of the Association of Chartered Certified Accountants (FCCA, UK), CPA (Mw) and a holder of Bachelor of Accountancy Degree (Bacc) from the University of Malawi. He holds an MBA obtained from the University of Reading (UK) and completed Management Advancement Programme with Wits University in 2016. He is responsible for Group's Finance & Accounting, Risk Management and Compliance functions. He has 18 years of experience with 13 years in senior management positions.

Mr. L. Mwabutwa, Facilities Manager

Lusayo Mwabutwa is a Certified Facilities Manager with the British Institute of Facilities Management (BIFM). He holds a Master of Science in Facilities Management from the University of Reading (UK) and a Bachelor of Science in Civil Engineering from the University of Malawi. He has over 13 years combined experience in engineering and facilities management. He is currently responsible for the Group's Facilities Management function.

DIRECTORS' REPORT →
INDEPENDENT AUDITOR'S REPORT →

REPORT OF THE DIRECTORS

For the year ended 31 December 2018

The directors have pleasure in presenting the separate and consolidated financial statements of MPICO plc and its subsidiary companies for the year ended 31 December 2018.

INCORPORATION AND REGISTERED OFFICE

MPICO plc is a company incorporated in Malawi under the Companies Act, 2013. 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 (2017: 28) investment properties in the country mainly in Lilongwe and Blantyre, which it rents out to the Government and the Private Sector.

SHARE CAPITAL

The authorised share capital of the company is K150 million (2017: K150 million) divided into 3 000 000 000 Ordinary Shares of 5 tambala each (2017: 3 000 000 000 ordinary shares of 5 tambala each). The issued capital is K114.902 million (2017: K114.902 million) divided into 2 298 047 460 ordinary shares of 5 tambala each (2017: 2 298 047 460 ordinary shares of 5 tambala each), fully paid.

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

	2018	2017
	%	%
Old Mutual Limited	72.0	72.0
General Public	23.0	23.0
Lincoln Investments Limited	5.0	5.0
	100.00	100.00

PROFITS AND DIVIDENDS

The directors report a net profit for the year of K6.8 billion (2017: K5.1 billion) for the Group {company K4.2 billion (2017:K1.9 billion)}. A final dividend of K230 million in respect of 2017 profits and an interim dividend of K207 million were declared and paid during the year.

FINANCIAL PERFORMANCE

The results and state of affairs of the company and the group are as disclosed in the 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.

CORPORATE GOVERNANCE

The Company embraces the best practices in corporate governance as enshrined under the Companies Act 2013, the Malawi Code II and Malawi Stock Exchange Listing requirements plus other laws applicable to the Real Estate industry.

The Board and its subcommittees have written charters and terms of references respectively which include all material points as required under the corporate governance guidelines. The subcommittees are chaired by non-executive directors.

DIRECTORS

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

Mrs. E. Jiya	-	Chairperson all year
Mr. C. Kapanga	-	Member all year
Mr. A. Barron	-	Member all year
Mr. M. Mikwamba	-	Member all year
Ms. E Salamba	-	Member all year
Mrs. V. Masikini	-	Member all year
Ms. C. Kalaile	-	Member all year
Mr. D. Kafoteka	-	Member all year

The following directors served office for the subsidiaries during the year

MPICO MALLS LIMITED

Mr. K. Phiri	-	Chairperson from 29 May 2018
Mrs. E. Jiya	-	Chairperson up to 29 May 2018
Mr. C. Kapanga	-	Member all year
Mr. A. Barron	-	Member all year
Mr. M. Mikwamba	-	Member all year
Mrs. Z Mitole	-	Member all year
Mr. J. Banda	-	Member up to 29 May 2018
Mrs. V. Masikini	-	Member from 29 May 2018
Mr. E. Banda	-	Member from 29 May 2018
Mr. D. Kafoteka	-	Member all year

CAPITAL INVESTMENTS LIMITED

Mr. D. Kafoteka	-	Chairman all year
Mr. B. Jere	-	Member all year
Mr. W. Mabulekesi	-	Member all year
Mr. K Phiri	-	Member all year

FRONTLINE INVESTMENTS LIMITED

Mr. D. Kafoteka	-	Chairperson all year
Mr. P. Fitzsimons	-	Member all year
Mr. K. Phiri	-	Member all year

The directors for the 100% owned companies NCPL and CDL were the same as for the company.

COMPANY SECRETARY

The company secretary for the company is Mr. C. Katulukira

DIRECTORS' INTERESTS

The directors noted below hold the following ordinary shares in the company at the year-end.
Mr. C. Kapanga : 452 773 shares
Mrs. E. Jiya : 31 469 shares

NUMBER OF BOARD MEETINGS HELD

The Board maintains a scheduled calendar of meetings and a standing agenda. The meetings are held quarterly and the Board at times also schedule adhoc meetings. Further, where necessary some specific items are added to the agenda in order to allow the Board to focus on key matters at each prevailing time. After each quarterly meeting, the Board schedules informal sessions and interactions, which allows directors, management and other stakeholders to discuss matters affecting the business.

During the year ended, 31 December 2018, four meetings were held and attendance by each director is given below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Edith Jiya	4	4
Andrew Barron	4	3
Veronica Masikini	4	4
Chris Kapanga/Khumbo Phiri*	4	4
Chifundo Kalaile	4	4
Mark Mikwamba	4	4
Eluphy Salamba	4	2
Damien Kafoteka	4	4

* Mr. Khumbo Phiri is an Alternate Director to Mr. Chris Kapanga who was on assignment to Ghana.

BOARD COMMITTEES

There are two board committees which were established to ensure that the Board discharges its duties effectively in accordance with principles of good corporate governance. All board committees have terms of reference and report to the main Board.

AUDIT, RISK & COMPLIANCE COMMITTEE (ARCC)

The Audit, Risk & Compliance Committee (ARCC) is responsible for reviewing the reports of both internal and external auditors, as well as overseeing the adequacy and effectiveness of internal controls. ARCC comprises four Non-Executive directors and the Managing Director and the management team attends the ARCC meetings. Further, the Company's external auditors attend the meetings when appropriate and necessary.

Responsibilities of ARCC

In addition to the Committee's responsibilities set out hereunder, the Committee will perform any other functions as determined by the Board:

1 .1 General

The Committee reports to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

1.2 Accounting and Financial Reporting

1.2.1 To review and monitor the integrity of the Group's interim and annual financial statements and any other formal announcements relating to the Company's financial performance.
1.2.2 Consider and satisfy itself on an annual basis of the appropriateness of the expertise and experience of the Financial Controller and confirm this annually to shareholders.
1.2.3 To report its views to the Board where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Group.
1.2.4 To receive reports on the status of completion of the Group's annual financial statements and their submission to the tax authorities.
1.2.5 To discuss and resolve any significant problems or reservations arising from the interim and final audits and any matters the independent external auditor wishes to discuss.
1.2.6 To review measures to enhance the credibility and objectivity of the financial statements.

1.3 Oversee and be responsible for the Company's information technology (IT) as it relates to financial reporting and the going concern of the Company, including considering the use of technology and related techniques to improve audit coverage and audit efficiency.

1.4 External Audit

1.4.1 Establish an approach to audit quality and ensure that it is executed and results reviewed.
1.4.2 Promote and maintain an effective relationship with the independent external auditor.
1.4.3 To ensure that adequate policies and processes are in place to ensure the independence of the independent external auditor, which policies and processes shall be reviewed annually.
1.4.4 To review and monitor the independent external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant legislation and professional and regulatory requirements.
1.4.5 To develop and implement policy on the engagement of the independent external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the Independent External Auditors, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken.
1.4.6 To discuss with the independent external auditors before the audit commences and, as necessary, following the audit, the nature and scope of the audit (including the accounting principles, policies and practices adopted in the preparation of the Group's accounts, planned levels of materiality, and resourcing).
1.4.7 In the event that the independent external auditors resign, the Committee should investigate the issues giving rise to such resignation and consider whether any action is required.
1.4.8 The Committee shall review the appointment of the prospective audit firm and d esignated individual auditor as and when the appointment arises.
1.4.9 The Committee shall review and consider the outcome of any legal or disciplinary proceedings instituted by a professional body against the independent external auditor.

1.5 Internal Audit

1.5.1 Establish an internal audit function for the Group and (i) ensure that the internal audit function is adequately and appropriately resourced, is equipped to perform in accordance with appropriate professional standards for internal auditors, and has the appropriate authority and status within the Group; and (ii) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Group's risk management system.
1.5.2 Agree to a Combined Assurance Framework, which considers proportionality in the design of the internal control functions and systems.
1.5.3 To review and approve the Internal Audit Terms of Reference annually, making recommendations for changes if required.

AUDIT, RISK & COMPLIANCE COMMITTEE (ARCC) (CONTINUED)

1.5 Internal Audit (Continued)

1.5.4 To review and approve the annual internal audit plan ensuring that material risk areas are included, that the coverage of business processes is acceptable, and that statutory and financial reporting requirements are met, and review the effect of quarterly plan adjustments.

1.5.5 To review and discuss the scope of work of the internal audit function, the issues identified as a result of its work and management's responsiveness to issues raised and agreed action plans.

1.5.6 To ensure co-ordination and co-operation between internal audit and the risk management and compliance functions.

1.5.7 To ensure that an independent quality review of the internal audit function is conducted, either in line with the Institute of Internal Auditors' (IIA) standards or such other standards as determined by the Committee, when the Committee determines it appropriate, as a measure to ensure the function remains effective and in conformance with the applicable standards.

1.6 Internal Controls

1.6.1 Consider control issues identified from the various reports reviewed by the Committee in the context of the overall effectiveness of internal controls.

1.6.2 To receive reports relating to management's assessment of the effectiveness of the Company's systems of internal controls, and satisfy itself whether any matters should be raised in the relevant section(s) in the annual financial statements and report on the findings to the Board.

1.7 Risk Responsibilities

1.7.1 Exercise Group risk oversight aimed at ensuring that risks are monitored and managed by the Company and its subsidiaries.

1.7.2 Review, at a minimum at least annually, the Group's risk strategy document. Approve the Group's risk strategy and risk appetite.

1.7.3 The Committee will ensure that the Group has in place effective systems for risk management and internal control to address key risks and is required to obtain input and assurance from the Company's risk management and compliance a functions regarding the operations, efficiency and effectiveness of the components of the systems for risk management and internal controls relevant to their respective areas of responsibility

1.7.4 The Committee will establish and maintain an enterprise risk management framework to, inter alia, enable the identification of intra-group transactions, credit risk and concentration and contagion risks across the Group.

The committee met four times during the year 2018 and the members attendance is summarised as below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Veronica Masikini	4	4
Andrew Barron	4	3
Chifundo Kalaile	4	4
Mark Mikwamba	4	4

Appointments and Remuneration Committee (A & R Com)

The committee is responsible for reviewing employees Conditions of Service, approving recommendations for changes to organisational structure and hiring of Executive Management.

The responsibilities of the Appointments and Remunerations Committee include:

2.1 Board Composition Matters

2.1.1 Identify individuals qualified to be elected as members of the Board and Board committees, to recommend such individuals to the Board for appointment in terms of the Company's Articles and Memorandum of Association and to establish procedures to ensure that the selection of individuals for such recommendation is transparent.

2.1.2 Evaluate the effectiveness of management as a whole and report thereon to the Board.

2.1.3 Be responsible for identifying and nominating candidates for the approval of the Board to fill vacancies on the Company's Board and its committees, taking cognisance of best practice and any legislated requirements.

2.1.4 Make recommendations, based on the Board and Committee evaluation results, to the Board for the continuation in service (or not) of any director as an executive or nonexecutive director.

2.1.5 Assist the Board and the chairperson of the Board in reviewing the independence of non-executive directors and make recommendations to the Board thereon on an annual basis.

2.1.6 Oversee the process for the evaluation of the performance of the Board and its individual directors.

2.1.7 Oversee the appointment, dismissal and performance management of roles reserved for appointment by the Board.

AUDIT, RISK & COMPLIANCE COMMITTEE (ARCC) (CONTINUED)

2.1 Board Composition Matters (Continued)

2.1.8 Assist the chairperson of the Board to initiate and manage overall performance evaluations of the Managing Director and other Directors.

2.1.9 Be responsible for considering the composition and skills required for the optimal functioning of the Board and motivating proposed changes in this regard to the respective boards for consideration.

2.2 Remuneration and Benefit Matters

2.2.1 Reviewing and approving the Company remuneration and benefit philosophy and overseeing the administration of related remuneration and benefit programs, policies and practices;

2.2.2 Annually reviewing all elements of executive remuneration and benefits of the Company and submitting documentation for approval by the full Board in a manner that is designed to qualify for the presumption of reasonableness under laws and regulations applicable to the Company.

2.2.3 Evaluating the remuneration and benefit competitiveness and reviewing the appropriate competitive positioning of the levels and mix of the Company reward and benefit elements within industry remuneration standards;

2.2.4 Establishing annual and long-term performance goals and objectives for the Managing Director (MD) and reviewing the goals approved by the Managing Director for the members of the Executive Leadership Team;

2.2.5 Reviewing and approving the remuneration and benefits of the members of the Executive Leadership Team as recommended by the MD based on an evaluation of their performance;

2.2.6 Approving or recommending employment agreements, offers of employment and other elements of remuneration provided to the members of the Executive Leadership Team;

2.2.7 The Committee shall re-assess the fitness and propriety of responsible persons annually and recommend the results of the assessment for approval to the Board.

The committee met twice during the year 2018 and the members attendance is summarised as below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Andrew Barron	2	2
Eluphy Salamba	2	1
Mark Mikwamba	2	2

DIRECTORS REMUNERATION

The directors' fees and remuneration for the Group and its subsidiaries was as follows:

Entity	Non-executive Directors fees and expenses K' million	Executive Directors remuneration K' million	Total K' million
For the year ended 31 December 2018			
MPICO plc	22.0	69.6	91.6
MPICO Malls Limited	17.4	-	17.4
Capital Investments Limited	9.3	-	9.3
Capital Developments Limited	10.6	-	10.6
New Capital Properties Limited	10.6	-	10.6
Frontline Investments Limited	7.1	-	7.1
	77	69.6	146.6
For the year ended 31 December 2017			
MPICO plc	14	61.4	75.4
MPICO Malls Limited	7.2	-	7.2
Capital Investments Limited	6.9	-	6.9
Capital Developments Limited	5.4	-	5.4
New Capital Properties Limited	5.4	-	5.4
Frontline Investments Limited	5.2	-	5.2
	44.1	61.4	105.5

ACTIVITIES

MPICO plc is in the business of development, rental and management of property. It has subsidiary companies as follows:

Subsidiaries of MPICO PLC	Percentage of Control	Nature of operations
Capital Developments Limited	100%	Development and rental of property
New Capital Properties Limited	100%	Development and rental of property
Capital Investments Limited	50.75%	Development and rental of property
Frontline Investments Limited	69.5%	Development and rental of property
MPICO Malls Limited	50.10%	Development and rental of property

DONATIONS

As part of its corporate social responsibility, the Group and its subsidiaries made charitable donations of K11.4 million (2017: K5 million) as shown below;

	2018 K' million	2017 K' million
MPICO plc	7.5	5
MPICO Malls Limited	3.9	-
Capital Investments Limited	-	-
Capital Developments Limited	-	-
New Capital Properties Limited	-	-
Frontline Investments Limited	-	-
	11.4	5

AUDITORS REMUNERATION

The agreed fees payable by the Group and its subsidiaries to their external auditors for financial audit and non-financial audit services are as follows:

Entity	Financial Audit K' million	Total K' million
For the year ended 31 December 2018		
MPICO plc	20.8	20.8
MPICO Malls Limited	7.5	7.5
Capital Investments Limited	5.3	5.3
Capital Developments Limited	4.4	4.4
New Capital Properties Limited	5.2	5.2
Frontline Investments Limited	4.8	4.8
	48.0	48.0
For the year ended 31 December 2017		
MPICO plc	20.5	20.5
MPICO Malls Limited	5.0	5.0
Capital Investments Limited	4.9	4.9
Capital Developments Limited	3.7	3.7
New Capital Properties Limited	3.6	3.6
Frontline Investments Limited	3.7	3.7
	41.4	41.4

The Directors are satisfied that the provision of non-audit services did not compromise the auditor independence.

AUDITORS

The group auditors, Deloitte, have indicated their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors in respect of the company's 31 December 2019 financial statements.

BY ORDER OF THE BOARD

Cosmas Katulukira
COMPANY SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBIITIES
For the year ended 31 December 2018

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of MPICO plc and its subsidiaries, comprising the statements of financial position at 31 December 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 2013.

The Act also requires the directors to ensure that the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Malawi Companies Act 2013.

In preparing the consolidated and separate 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 financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business in the foreseeable future.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the company and of its operating results and cash flows for the year ended 31 December 2018.

....
Managing Director

....
Chairperson

Deloitte.

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Capital City,
Lilongwe 3
Malawi

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPICO plc

Opinion

We have audited the consolidated and separate financial statements of Mpico plc and its subsidiaries ("the group") set out on pages 24 to 63, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the group as at 31 December 2018, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

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 *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restatement of the financial statements

We draw attention to notes 1.1 and 9 to the financial statements which indicate that the previously issued financial statements for the year ended 31 December 2017 have been restated. As explained therein, this is to reflect the effects of the correction of misstatements relating to deferred tax provision. Our opinion is not modified in respect of this matter.

Key audit matters

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

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>Valuation of Investment Property
See notes 3.5, 4.2.1 and 6 to the financial statements</td><td></td></tr>
<tr><td>The group owns various investment properties which are carried at fair value in line with IAS 40 Investment Property. The investment properties are the group's most significant revenue generating asset and represent a very material balance on both the group's and company's Statement of Financial Position.

The investment properties were revalued as at 31 December 2018 by an independent valuer.

The valuation of the group's property was considered a key audit matter due to:

• The significance of the amount to the financial statements;
• The use of judgement and assumptions by the valuers; and
• The complexity of the methods used in the valuation of the property.</td><td>We evaluated the acceptability of valuation work performed by the valuation expert by, among other things:

• Evaluating the nature and scope of the expert's work;
• Assessing the competence and objectivity of the expert;
• Assessing the judgement and assumptions applied;
• Evaluating the accuracy and completeness of the input data used in the valuation; and
• Evaluating the conclusions reached in light of our understanding of the entity and its business.

We found the valuation of the property to be appropriate.</td></tr>
</table>

Other matter

The consolidated and separate financial statements of the company for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2018.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, and the Statement of Director's Responsibilities, which we obtained prior to the date of this auditor's report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 and separate 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 and separate 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 auditor's 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 the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 and separate 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 and separate 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 auditor's report to the related disclosures in the consolidated and separate 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 auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Deloitte

Chartered Accountants
Vilengo Beza
Partner

27 March 2019

FINANCIAL STATEMENTS
For the year ended 31 December 2018

STATEMENTS OF FINANCIAL POSITION
For the year ended 31 December 2018

	Notes	Group 2018 K'000	Group 2017 K'000 Restated	Group 2016 K'000 Restated	Company 2018 K'000	Company 2017 K'000 Restated	Company 2016 K'000 Restated
ASSETS							
NON-CURRENT ASSETS							
Investment properties	6	54 206 720	48 597 167	43 510 442	14 283 992	12 766 492	11 726 210
Plant and equipment	7	536 071	181 201	721 600	281 242	105 034	120 401
Investment in subsidiaries	8	-	-	-	13 814 663	13 814 663	4 754 198
Deferred tax	9	3 981 909	4 116 537	3 522 525	-	-	-
Secured staff loans		20 458	34 208	39 497	20 458	34 208	39 497
Related party loan		-	-	-	-	-	3 223 555
Total non-current assets		58 745 158	52 929 113	47 794 064	28 400 355	26 720 397	19 863 861
CURRENT ASSETS							
Amounts due from subsidiaries	11	-	-	-	825 949	581 212	865 372
Taxation recoverable		84 507	811 231	784 097	-	570 557	692 783
Dividends receivable from subsidiaries		-	-	-	-	69 500	759 396
Trade and other receivables	10	4 086 512	10 827 504	7 734 461	767 089	662 330	488 898
Cash and cash equivalents	14	2 568 534	140 239	854 322	49 560	60 300	804 406
Total current assets		6 739 553	11 778 974	9 372 880	1 642 598	1 943 899	3 610 855
TOTAL ASSETS		**65 484 711**	**64 708 087**	**57 166 944**	**30 042 953**	**28 664 296**	**23 474 716**
EQUITY AND LIABILITIES							
SHAREHOLDERS' EQUITY							
Share capital		114 902	114 902	114 902	114 902	114 902	114 902
Share premium		8 626 938	8 626 938	11 369 361	8 626 938	8 626 938	8 626 938
Distributable reserves		3 232 411	1 811 650	187 130	6 082 058	3 383 910	2 348 460
Non-distributable reserves		22 072 694	19 019 005	16 263 711	10 927 994	9 797 730	8 933 714
Equity attributable to equity holders of the parent		34 046 945	29 572 495	27 935 104	25 751 892 2	1 923 480	20 024 014
Non controlling interests		18 400 848	17 274 329	1 930 232	-	-	-
Total equity		52 447 793 4	6 846 824	29 865 336	25 751 892	21 923 480	20 024 014
NON-CURRENT LIABILITIES							
Deferred taxation	9	7 447 709	6 600 568	5 680 065	3 395 105	2 972 803	2 372 159
Redeemable preference shares		-	-	3 904 378	-	-	-
Borrowings	12	4 493 564	6 938 463	11 208 943	-	2 713 607	-
Total non-current liabilities		11 941 273	13 539 031	20 793 386	3 395 105	5 686 410	2 372 159
CURRENT LIABILITIES							
Borrowings	12	258 769	754 383	1 220 866	-	-	565 169
Amounts due to subsidiaries	11	-	-	-	225 980	200 720	-
Payables	13	551 218	1 255 423	783 161	303 162	463 914	372 654
Taxation payable		-	1 922 654	1 564 451	110 711	-	-
Bank overdraft	14	285 658	389 772	160 668	256 103	389 772	140 720
Dividend payable to NCI-preference shares		-	-	2 779 076	-	-	-
Total current liabilities		1 095 645	4 322 232	6 508 222	895 956	1 054 406	1 078 543
Total liabilities		13 036 918	17 861 263	27 301 608	4 291 061	6 740 816	3 450 702
TOTAL EQUITY AND LIABILITIES		**65 484 711**	**64 708 087**	**57 166 944**	**30 042 953**	**28 664 296**	**23 474 716**

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2019 and were signed on its behalf by:

.... **MANAGING DIRECTOR**

.... **CHAIRPERSON**

STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	Group 2018 K'000	Group 2017 K'000	Company 2018 K'000	Company 2017 K'000
INCOME					
Rental income	5	6 227 202	5 507 380	1 995 562	1 648 396
Interest income on rental arrears	1	732 570	2 370 351	145 688	622 054
Total income		7 959 772	7 877 731	2 141 250	2 270 450
Increase in fair value of investment Properties	5	5 277 441	4 880 635	1 515 400	1 035 021
Dividend income from subs		-	-	1 516 000	-
Other income	15	152 935	163 476	2 438 980	1 122 322
		13 390 148	12 921 842	7 611 630	4 427 793
OPERATING EXPENSES					
Property and administration expenses	16	(3 654 406)	(3 417 444)	(1 860 660)	(1 526 647)
Provision for doubtful receivables	10	(236 532)	(216 676)	(41 812)	(48 072)
Total operating expenses		(3 890 938)	(3 634 120)	(1 902 472)	(1 574 719)
FINANCE COST					
Interest income on bank deposits and staff loans		67 819	33 840	11 258	-
Exchange gain/(loss) on borrowings		613 656	(453 016)	-	-
Interest on redeemable preference shares		-	(334 854)	-	-
Finance costs on borrowings		(1 112 988)	(1 410 357)	(181 755)	(152 851)
Net finance cost		(431 513)	(2 164 387)	(170 497)	(152 851)
PROFIT BEFORE TAXATION	17	9 067 697	7 123 335	5 538 661	2 700 223
TAXATION	18	(2 285 348)	(2 030 467)	(1 320 937)	(756 414)
PROFIT FOR THE YEAR		6 782 349	5 092 868	4 217 724	1 943 809
APPROPRIATION OF PROFIT FOR THE YEAR					
Distributable reserves	20	2 018 142	1 808 364	3 087 460	1 219 294
Non-distributable reserves	20	3 053 689	2 274 585	1 130 264	724 515
Amounts attributable to members of the parent		5 071 831	4 082 949	4 217 724	1 943 809
Amounts attributable to minority interests		1 710 518	1 009 919	-	-
		6 782 349	5 092 868	4 217 724	1 943 809
Basic earnings per share (K)		2.2	1.78		
- Distributable (K)		0.88	0.79		
- Non-distributable (K)		1.33	0.99		

The group and company had no other comprehensive income in the current or prior year.

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital K'000	Share premium K'000	Distributable reserves K'000	Non-distributable reserves K'000	Attributable to equity holders of interests K'000	Non-controlling interests K'000	Total K'000
Group							
For the year ended 31 December 2018							
At the beginning of the year as restated	114 902	8 626 938	1 811 650	19 019 005	29 572 495	17 274 329	46 846 824
IFRS 9 Impairment-Prior year	-	-	(160 752)	-	(160 752)	-	(160 752)
Subtotal	114 902	8 626 938	1 650 898	19 019 005	29 411 743	17 274 329	46 686 072
Distributable profit for the year	-	-	2 018 142	-	2 018 142	221 211	2 239 353
Non-distributable profit for the year	-	-	-	3 053 689	3 053 689	1 489 308	4 542 997
Dividends declared – Final 2017	-	-	(229 805)	-	(229 805)	-	(229 805)
Dividends declared – Interim 2018	-	-	(206 824)	-	(206 824)	(584 000)	(790 824)
At the end of the year	114 902	8 626 938	3 232 411	22 072 694	34 046 945	18 400 848	52 447 793

	Share capital K'000	Share premium K'000	Distributable reserves K'000	Non-distributable reserves K'000	Attributable to equity holders of interests K'000	Non-controlling interests K'000	Total K'000
Group							
For the year ended 31 December 2017							
At 1 January 2017 as restated	14 902	11 369 361	187 130	16 263 711	27 935 104	1 930 232	29 865 336
Distributable profit for the year	-	-	1 808 364	-	1 808 364	(131 941)	1 676 423
Non-Distributable profit for the year	-	-	-	2 274 585	2 274 585	1 141 860	3 416 445
Deferred tax adjustment	-	-	-	480 709	480 709	337 936	818 645
Dividends declared-Interim 2017	-	-	(183 844)	-	(183 844)	(178 250)	(362 094)
Issue of additional shares in a subsidiary	-	-	-	-	-	11 432 069	11 432 069
Share premium reclassification	-	(2 742 423)	-	-	(2 742 423)	2 742 423	-
Balance at 31 December 2017 as restated	114 902	8 626 938	1 811 650	19 019 005	29 572 495	17 274 329	46 846 824
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
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
Deferred tax adjustment	-	-	-	1 436 570	1 436 570	470 051 1	906 621
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
Balance at 31 December 2016 as restated	114 902	11 369 361	187 130	16 263 711	27 935 104	1 930 232	29 865 336

STATEMENTS OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2018

	Share capital K'000	Share premium K'000	Distributable reserves K'000	Non-distributable reserves K'000	Total K'000
Company					
For the year ended 31 December 2018					
At the beginning of the year as restated	114 902	8 626 938	3 383 910	9 797 730	21 923 480
IFRS 9 adjustment	-	-	47 317	-	47 317
Subtotal	-	-	3 431 227	9 797 730	21 970 797
Distributable profit for the year	-	-	3 087 460	-	3 087 460
Non-distributable profit for the year	-	-	-	1 130 264	1 130 264
Interim dividend declared-Final 2017	-	-	(229 805)	-	(229 805)
Interim dividend declared-Interim 2018	-	-	(206 824)	-	(206 824)
At the end of the year	114 902	8 626 938	6 082 058	10 927 994	25 751 892
For the year ended 31 December 2017					
At the beginning of the year as restated	114 902	8 626 938	2 348 460	8 933 714	20 024 014
Prior year adjustment-deferred tax	-	-	-	139 501	139 501
Distributable profit for the year	-	-	1 219 294	-	1 219 294
Non-distributable profit for the year	-	-	-	724 515	724 515
Interim dividend declared 2017	-	-	(183 844)	-	(183 844)
At the end of the year as restated	114 902	8 626 938 3	383 910	9 797 730	21 923 480
For the year ended 31 December 2016					
At the beginning of the year	57 451	-	2 419 958	7 128 197	9 605 606
Prior year adjustment-deferred tax	-	-	-	573 809	573 809
As restated	57 451	-	2 419 958	7 702 006	10 179 415
Distributable profit for the year	-	-	(71 498)	-	(71 498)
Non-distributable profit for the year	-	-	-	1 231 708	1 231 708
Issues of shares	57 451	8 626 938	-	-	8 684 389
At the end of the year as restated	114 902	8 626 938	2 348 460	8 933 714	20 024 014

The distributable reserve is available for distribution to shareholders as dividends subject to a 10% withholding tax. The non-distributable reserve relates to unrealised capital profits (net of related deferred tax) on valuation of investment properties and is not available for distribution in terms of the Malawi Companies Act, 2013.

The closing non distributable reserves for the years 2017 and 2016 for both the group and the company have been restated in the current year. The restatement arose from errors in the computation of deferred tax provision in that the computations did not adjust the purchase price of the property for inflation as per the requirements of the Taxation Act.

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
SHARE CAPITAL				
Authorised:				
3 000 000 000 Ordinary shares of 5t each				
(2017: 3 000 000 000 Ordinary Shares of 5t each) 1	50 000	150 000	150 000	150 000
Issued and fully paid:				
2 298 047 460 Ordinary shares of 5t each				
(2017: 2 298 047 460 Ordinary Shares of 5t each)	114 902	114 902	114 902	114 902

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2018

	Notes	Group 2018 K'000	Group 2017 K'000	Company 2018 K'000	Company 2017 K'000
Cash flows from operating activities					
Net cash used in operations	22	9 055 717	(1 017 109)	2 149 963	1 325 727
Returns on investments and servicing of finance					
Dividends received		-	-	1 585 500	162 675
Interest received		1 800 389	2 404 191	156 946	622 054
Interest paid		(1 112 988)	(1 745 211)	(181 755)	(152 851)
Dividends paid to shareholders		(436 629)	(183 844)	(436 629)	(183 844)
Dividends paid to minority shareholders		(584 000)	(178 250)	-	-
Net cash flow from returns on investments and servicing of finance		8 722 489	(720 223)	3 274 025	1 773 761
Taxation paid		(2 499 509)	(554 261)	(217 367)	105 957
Net cash used in operating activities		6 222 980	(1 274 484)	3 056 658	1 879 718
Cash flows to investing activities					
Additions to investment properties	6	(332 112)	(206 091)	(2 100)	(5 261)
Additions to plant and equipment	7	(434 153)	(79 553)	(234 228)	(23 648)
Proceeds on disposal of plant and equipment		2 456	600 000	2 456	-
Investment in subsidiary company		-	-	-	(9 060 465)
Staff long-term loans granted		13 750	5 289	13 750	5 289
Net cash generated by (used) in operating activities		(750 059)	319 645	(220 122)	(9 084 085)
Cash flows from financing activities					
Proceeds from borrowings	12	4 752 333	3 297 953	-	5 937 162
Repayment of borrowings	12	(7 078 913)	(8 487 932)	(2 713 607)	(643 271)
Exchange (gain)/loss related to borrowings		(613 932)	453 016	-	-
Preference dividends		-	(2 779 076)	-	917 318
Redemption of preference shares		-	(3 904 378)	-	-
Issue of shares in non-controlling interest		-	11 432 069	-	-
Net cash generated from financing activities		(2 940 512)	11 652	(2 713 607)	6 211 209
Net increase/(decrease) in cash and cash equivalents	2	532 409	(943 187)	122 929	(993 158)
Cash and cash equivalents at the beginning of the year		(249 533)	693 654	(329 472)	663 686
Cash and cash equivalents at the end of the year	14	2 282 876	(249 533)	(206 543)	(329 472)

1. GENERAL INFORMATION

MPICO plc, 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 plc and its subsidiaries (together referred to as Group). The Group is primarily in the business of development, rentals and management of properties.

1.1 Restatements on 2017 and 2016 financial statements

As detailed in note 9 to the financial statements, prior year adjustments have been processed in respect of deferred tax for both 2017 and 2016. The restatement arose from errors in the computation of deferred tax provision in that the computations did not adjust the purchase price of the property for inflation as per the requirements of the Taxation Act. The impact of these restatements is detailed in the analysis below.

	As previously reported K'000	Adjustment K'000	Restated K'000
GROUP			
2017			
Deferred tax asset	2 152 718	1 963 819	4 116 537
Deferred tax liabilities	(7 362 017)	761 449	(6 600 568)
Non distributable reserves	(17 101 726)	(1 917 279)	(19 019 005)
Non controlling interest	(16 466 342)	(807 987)	(17 274 329)
2016			
Deferred tax asset	2 217 274	1 305 251	3 522 525
Deferred tax liabilities	(6 281 436)	601 371	(5 680 065)
Non distributable reserves	(14 827 141)	(1 436 570)	(16 263 711)
Non controlling interest	(1 460 181)	(470 051)	(1 930 232)
Company			
2017			
Deferred tax liability	(3 686 113)	713 310	(2 972 803)
Non distributable reserves	(9 084 420)	(713 310)	(9 797 730)
2016			
Deferred tax liability	(2 945 568)	573 409	(2 372 159)
Non distributable reserves	(8 359 905)	(573 409)	(8 933 714)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2018.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the group.

The standards that were adopted in the year were

(i) IFRS15 Revenue Recognition. This standard did not have a material impact on the financial statements of the group in respect of year 2018.

(ii) IFRS9 –Financial Instruments. The group elected not to restate comparative figures but to process an adjustment to carrying amounts on the financial assets and liabilities through opening retained earnings. Thus amendments to IFRS7 disclosures have only been applied this year and comparative notes disclosures reflect those of prior year.

Adoption of IFRS 9

The group has adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of mandatory application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

assets and to certain aspects of the accounting for financial liabilities.

The key changes to the group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Group classifies financial assets under IFRS 9, refer to Note 3 Significant accounting policies – Classification of financial assets and financial liabilities.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using effective interest rate method. There has been no changes in the classification and measurement of financial liabilities on the adoption of IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Key changes in the group's accounting policy for impairment of financial assets are listed below:

The group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition

Stage 1: 12 months ECL
For exposures where there has been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL –not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains largely unchanged.

For an explanation of how the group applies the impairment requirements of IFRS 9, refer to Note 3.3 Accounting policies – Financial assets and financial liabilities – impairment.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

(a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.
(b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
  - The designation of certain investments in equity instruments not held for trading as at FVOCI; and
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

Transition (Continued)

Impact of Adopting IFRS 9

The impact of this change in accounting policy as at 1 January 2018 has been to decrease retained earnings of the group by K161 million and increase the retained earnings of the company by K47 million. If this standard had been adopted in 2017 then the receivables would have increased by the same amount.

2.2 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 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the group are set out below. The group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2019	IFRS 16 Leases IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guide including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are aid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively. In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.
Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9) Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
Annual reporting periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Clarifies that an entity applies IFRS 9 Financial Instruments to longterm interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied
Annual reporting periods beginning on or after 1 January 2019	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
Annual reporting periods beginning on or after 1 January 2020	Amendments to References to the Conceptual Framework in IFRS Standards The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Annual reporting periods beginning on or after 1 January 2020	Definition of a Business (Amendments to IFRS 3) The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: • clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and • add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
Annual reporting periods beginning on or after 1 January 2020	Definition of Material (Amendments to IAS 1 and IAS 8) The amendments in Definition of Material (Amendments to IAS 1 and IAS 8)clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.
Annual reporting periods beginning on or after 1 January 2021	IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

The directors anticipate that other than IFRS 16 these Standards and Interpretations in future periods will have no significant impact on the financial statements of the group. IFRS 16 will impact recognition, measurement, presentation and disclosures of leases. The directors are unable to quantify the impact that adoption of these Standards and Interpretations in future periods will have on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The financial statements are prepared in terms of the historical cost basis with the exception of investment properties, which are included at valuation. Historical cost is generally based on the fair value of the consideration given in exchange for assets as explained in the accounting policies below.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of MPICO plc and entities controlled by MPICO plc. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.4 Plant and equipment

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

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

Fixtures, equipment and computers	5 years
Generators and Lifts	10 years
Motor vehicles	4 years

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

3.5 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), 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 statement of 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 derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 *Non-current assets held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell except where the measurement is specifically covered by another standard.

3.7 *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 statement of 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 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 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, 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.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively. Where current and deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.8 *Foreign currencies*

(a) *Functional and presentation currency*

Items included in the 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, which is the group's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Foreign currencies (Continied)

(b) *Transactions and balances*
Transactions in currencies other than Malawi Kwacha are recognised 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 recognised 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.

3.9 Pension fund

MPICO plc 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.

3.10 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 capitalisation.

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

3.11 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 recognised 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 formalised.

Dividend revenue from investments is recognised when the shareholder's 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.

3.12 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
Debt instruments that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued)

Classification of financial assets (Continued)
By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortised cost and effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

(ii) Debt instruments classified as at FVTOCI
The corporate bonds held by the group are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI
On initial recognition, the group may make an irrevocable election (on an instrument-by-instrument basis)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued)

Classification of financial assets (Continued)

(iii) Equity instruments designated as at FVTOCI (Continued)

to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the group manages together
  and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued)

Classification of financial assets (Continued)

Impairment of financial assets (Continued)

reporting date, including time value of money where appropriate.

For all other financial instruments, the group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'.Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the group considers the changes in the risk that the specified debtor will default on the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

The group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the group, in full (without taking into account any collateral held by the group).

Irrespective of the above analysis, the group considers that default has occurred when a financial asset is more than 90 days past due unless the group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Financial assets written off may still be subject to enforcement activities under the group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the group in accordance with the contract and all the cash flows that the group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the group expects to receive from the holder, the debtor or any other party.

If the group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued

Impairment of financial assets (Continued)

(v) Measurement and recognition of expected credit losses (Continued)
in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated inthe investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less any impairment.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short- term deposits with an original maturity period of three months or less. For cash flow statement purposes, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

3.13 Financial liabilities and equity

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 arrangements and the definitions of a financial liability and an equity instrument.

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 issued by the group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments.

Compound instruments
The component parts of convertible loan notes issued by the group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial liabilities and equity (Continued

Compound instruments (Continued)

for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead,

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the group that are designated by the group as at FVTPL are recognised in profit or loss.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Financial guarantee contract liabilities
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Foreign exchange gains and losses
For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Loans and borrowings

After initial recognition, accounts payables are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Impairment of non-financial assets

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3.15 Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4.1 Critical judgments in applying the company's significant accounting policies

In the application of the group's accounting policies which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

No critical judgments were made by the management during the current period which would have a material impact on the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

4.2 Key sources of estimation uncertainty

The key assumptions that were made concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

4.2.1 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.

4.2.2 Provision for receivables

When measuring Expected Credit Losses (ECL), the group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimation of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

5. OPERATING SEGMENTS

5.1 Operating Segments

Operating segments have been identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

5.2 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 (2017: 28) investment properties.

5.3 Geographical 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 market.

	Rental income		Property values		Fair value increase	
	2018 K'000	**2017 K'000**	**2018 K'000**	**2017 K'000**	**2018 K'000**	**2017 K'000**
GROUP						
Blantyre	390 024	326 293	2 774 075	2 417 074	357 000	229 782
Lilongwe	5 708 842	5 089 189	50 570 767	45 398 715	4 841 411	4 601 853
Other markets	128 336	91 898	861 878	781 378	79 030	49 000
Total	6 227 202	5 507 380	54 206 720	48 597 167	5 277 441 4	880 635
COMPANY						
Blantyre	390 024	326 292	2 774 075	2 417 075	357 000	229 782
Lilongwe	1 484 589	1 236 468	10 689 539	9 605 039	1 082 400	759 239
Other markets	120 949	85 636	820 378	744 378	76 000	46 000
Total	1 995 562	1 648 396	14 283 992	12 766 492	1 515 400	1 035 021

6. INVESTMENT PROPERTIES

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
VALUATION				
Freehold	23 697 842	21 215 979	12 730 614	11 363 614
Leasehold	30 508 878	27 381 188	1 553 378	1 402 878
Total investment properties	54 206 720	48 597 167	14 283 992	12 766 492

Movements in the valuation of investment properties are set out below.

	Group 2018 K'000	Group 2017 K'000	Company 2018 K'000	Company 2017 K'000
VALUATION				
Freehold				
At the beginning of the year	21 215 979	18 886 705	11 363 614	10 423 332
Additions	3 590	2 354	2 100	2 354
Fair value adjustment	2 478 273	2 326 920	1 364 900	937 928
At the end of the year	23 697 842	21 215 979	12 730 614	11 363 614
Leasehold				
At the beginning of the year	27 381 188	24 623 737	1 402 878	1 302 878
Additions	328 522	203 737	-	2 907
Fair value adjustment	2 799 168	2 553 714	150 500	97 093
At the end of the year	30 508 878	27 381 188	1 553 378	1 402 878
Total valuation	54 206 720	48 597 167	14 283 992	12 766 492

The registers of land and buildings are open for inspection at the registered offices of the company.

Investment properties were revalued to fair value as at 31 December 2018 on the basis set out in note 3.5 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.

There has been no change to the valuation technique during the year.

6. INVESTMENT PROPERTIES (Continued)

Details of the group's land and buildings and fair value hierarchy as at the end of the year are as follows:

Group

	Level 2 K'000	Fair value K'000
31 December 2018		
Investment properties	54 206 720	54 206 720
31 December 2017		
Investment properties	48 597 167	48 597 167
Company		
31 December 2018		
Investment properties	14 283 992	14 283 992
31 December 2017		
Investment properties	12 766 492	12 766 492

There were no transfers amongst any of the levels during the year.

Included in the investment properties balance as at 31 December 2018 were properties encumbered as follows:

1. **Development House in Lilongwe valued at K913 million and Tikwere House valued at K1 770 million**
   These properties are the subject of a charge in favour of FDH Bank and National Bank of Malawi respectively to secure overdraft facilities of K300 million each.

2. **Gateway mall valued at K25 916 million**
   The property is the subject of a charge in favour of Standard Bank (Malawi) Ltd to secure a loan of K4.6 billion. The amount was used to prepay foreign loans of ZAR32 million and ZAR47 million in favour of Shelter Afrique and International Finance Corporation respectively. The original loans were obtained in 2014 in order to finance the construction of the mall (The Gateway).

   Details of the cost of the investment properties are as follows:

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
At cost	19 296 807	19 166 337	283 082	280 982
Fair values	34 909 912	29 430 830	14 000 910	12 485 510
Total investment properties	54 206 719	48 597 167	14 283 992	12 766 492

7. PLANT AND EQUIPMENT

GROUP

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
COST					
At 1 January 2018	143 557	86 094	49 800	281 787	561 238
Additions	65 218	23 909	96 377	248 649	434 153
Disposals	(25 318)	(3 986)	-	(86 762)	(116 066)
At 31 December 2018	183 457	106 017	146 177	443 674	879 325
At 1 January 2017	92 419	86 094	49 800	844 403	1 072 716
Additions	51 138	-	-	28 415	79 553
Disposals	-	-	-	(591 031)	(591 031)
At 31 December 2017	143 557	86 094 4	9 800	281 787	561 238
ACCUMULATED DEPRECIATION					
At 1 January 2018	83 936	58 752	37 880	199 469	380 037
Charge for the year	14 394	6 528	12 827	38 836	72 585
Disposal	(22 417)	(3 985)	-	(82 966)	(109 368)
At 31 December 2018	75 913	61 295	50 707	155 339	343 254
At 1 January 2017	77 979	52 225	27 043	193 869	351 116
Charge for the year	5 957	6 527	10 837	50 912	74 233
Disposal	-	-	-	(45 312)	(45 312)
At 31 December 2017	83 936	58 752	37 880	199 469	380 037
CARRYING AMOUNT					
Carrying amount at 31 December 2018	107 544	44 722	95 470	288 335	536 071
Carrying amount at 31 December 2017	59 621	27 342	11 920	82 318	181 201

COMPANY

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
COST					
At 1 January 2018	70 478	44 651	49 800	207 854	372 783
Additions	7 905	-	96 377	129 946	234 228
Disposals	(19 797)	(1 315)	-	(83 426)	(104 538)
At 31 December 2018	58 586	43 336	146 177	254 374	502 473
At 1 January 2017	68 839	44 651	49 800	185 845	349 135
Additions	1 639	-	-	22 009	23 648
Disposals	-	-	-	-	-
At 31 December 2017	70 478	44 651	49 800	207 854	372 783
ACCUMULATED DEPRECIATION					
At 1 January 2018	59 319	34 081	37 880	136 469	267 749
Depreciation	4 094	2 770	12 827	31 904	51 595
Disposal	(17 169)	(1 314)	-	(79 630)	(98 113)
At 31 December 2018	46 244	35 537	50 707	88 743	221 231
At 1 January 2017	55 871	31 311	27 043	114 509	228 734
Depreciation	3 448	2 770	10 837	21 960	39 015
At 31 December 2017	59 319	34 081	37 880	136 469	267 749
CARRYING AMOUNT					
Carrying amount at 31 December 2018	12 342	7 799	95 470	165 631	281 242
Carrying amount at 31 December 2017	11 159	10 570	11 920	71 385	105 034

8. SUBSIDIARY COMPANIES

	2018	2017	2018	2017
	%	%	K'000	K'000
Wholly owned subsidiaries				
New Capital Properties Limited	100.00	100.00	570	570
Capital Developments Limited	100.00	100.00	68 969	68 969
Other subsidiaries				
Frontline Investments Limited	69.50	69.50	1 870	1 870
MPICO Malls Limited	50.1	50.1	13 741 853	13 741 853
Capital Investments Limited	50.75	50.75	1 401	1 401
Total investment in subsidiary companies			13 814 663	13 814 663

The investments in subsidiary companies comprise ordinary shares and are stated at cost.

The subsidiaries have no other forms of shares in issue.

9. DEFERRED TAXATION

Group

Deferred tax asset

For the year ended 31 December 2018	**Balance as at 1 January 2018 K'000**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2018 K'000**
Deferred tax assets movement in the year				
Revaluation of investment property	609 713	76 644	-	686 357
Excess capital allowances	(4 158)	(17 593)	-	(21 751)
Tax losses	3 510 982	(193 679)	-	3 317 303
Total	4 116 537	(134 628)	-	3 981 909

For the year ended 31 December 2017	**Balance as at 1 January 2018 K'000**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2017 K'000 Restated**
Revaluation of investment property	731 889	(812 138)	689 962	609 713
Excess capital allowances	(58 520)	54 362	-	(4 158)
Tax losses	2 849 156	693 220	(31 394)	3 510 982
Total	3 522 525	(64 556)	658 568	4 116 537

For the year ended 31 December 2016	**Balance as at 1 January 2018 K'000**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2016 K'000 Restated**
Revaluation of investment property	(190 001)	(383 361)	1 305 251	731 889
Excess capital allowances	(53 193)	(5 327)	-	(58 520)
Tax losses	1 409 784	1 439 372	-	2 849 156
Total	1 166 590	1 050 684	1 305 251	3 522 525

9. DEFERRED TAXATION (Continued)

Group

Deferred tax liabilities

For the year ended 31 December 2018	**Recognised Balance as at 1 January 2018 K'000 Restated**	**Recognised in profit or loss K'000**	**Balance as at 31 December 2018 K'000**
Deferred tax liabilities movement in the year			
Revaluation of investment property	(6 682 298)	(851 815)	(7 534 113)
Excess capital allowances	53 769	(53 936)	(167)
Other temporary differences	27 961	58 610	86 571
Total	(6 600 568)	(847 141)	(7 447 709)

For the year ended 31 December 2017	**Balance as at 1 January 2017 K'000 Restated**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2017 K'000 Restated**
Revaluation of investment property	(6 190 327)	(716 604)	224 633	(6 682 298)
Excess capital allowances	50 350	3 419	-	53 769
Other temporary differences	459 912	(431 951)	-	27 961
Total	(5 680 065)	(1 145 136)	224 633	(6 600 568)

For the year ended 31 December 2016	**Balance as at 1 January 2016 K'000**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2016 K'000 Restated**
Revaluation of investment property	(5 649 453)	(1 142 244)	601 370	(6 190 327)
Excess capital allowances	51 233	(883)	-	50 350
Other temporary differences	302 160	157 752	-	459 912
Total	(5 296 060)	(985 375)	601 370	(5 680 065)

Company

For the year ended 31 December 2018	**Recognised Balance as at 1 January 2018 K'000 Restated**	**Recognised in profit or loss K'000**	**Balance as at 31 December 2018 K'000**
Deferred tax liability movement in the year			
Revaluation of investment property	(3 032 343)	(377 854)	(3 410 197)
Excess capital allowances	31 579	(35 415)	(3 836)
Other temporary differences	27 961	(9 033)	18 928
Total	(2 972 803)	(422 302)	(3 395 105)

For the year ended 31 December 2017	**Balance as at 1 January 2017 K'000 Restated**	**Recognised in profit or loss K'000**	**Recognised in equity K'000**	**Balance as at 31 December 2017 K'000 Restated**
Revaluation of investment property	(2 861 338)	(310 506)	139 501	(3 032 343)
Excess capital allowances	29 267	2 312	-	31 579
Other temporary differences	459 912	(431 951)	-	27 961
Total	(2 372 159)	(740 145)	139 501	(2 972 803)

9. DEFERRED TAXATION (Continued)

For the year ended 31 December 2016	Balance as at 1 January 2016	Recognised in profit or loss	Recognised in equity	Balance as at 31 December 2016
	K'000	K'000	K'000	K'000 Restated
Revaluation of investment property	(2 907 272)	(527 875)	573 809	(2 861 338)
Excess capital allowances	31 235	(1 968)	-	29 267
Other temporary differences	302 161	157 751	-	459 912
Total	(2 573 876)	(372 092)	573 809	(2 372 159)

The restatement arose due to errors in the computation of deferred tax provision in that the computations did not adjust the purchase price of the property for inflation as per the requirement of the Taxation Act.

10. RECEIVABLES

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
Rental and service charges	2 796 091	5 746 318	448 432	331 639
Prepaid property expenses	48 674	1 076 045	23 031	165 623
Valuation and consultancy receivables	-	223	-	-
Accrued interest	276 040	3 728 633	223 383	149 366
Staff receivables	121 732	69 334	121 732	69 334
IAS 17 Receivables	684 864	416 481	-	-
Other receivables	683 851	28 353	10 873	12 236
Provision for doubtful receivables	(524 740)	(237 883)	(60 362)	(65 868)
Total receivables	4 086 512	10 827 504	767 089	662 330

Interest is charged on receivables in respect of outstanding rentals at the prevailing commercial bank lending rate. As at year end the amount outstanding from Government was K2 271 million (2017: K8 041 million) for the group {company K424 million (2017: K353 million)}. The total interest charged on overdue Government rentals and other tenants amounted to K1 800 million (2017: K2 370 million) {company K146 million (2017: K196 million)} for the year.

Part (K199 million) of the K1.1 billion prior year prepayment has been transferred to Property, Plant and Equipment and another part (K197 million) to Investment Properties after Food Lovers' Market being a tenant in The Gateway mall supplied breakdown of the amount, and remaining amount has been written off in the income statement as an impairment in the reporting period.

The IAS 17 receivable of K684.9 million (2017: K416.5 million) relates to a receivable that came about as a result of the entity recognizing income from leases that are not renewable annually on a straight line basis over the lease term in line with IAS 17 Leases.

Other receivables includes K600 million receivable from Lilongwe City Council being contribution towards the construction of The Gateway Mall sewer line.

The group has provided for all receivables in line with IFRS 9 on the basis out in note 3 and note 4.2.2.

Rentals and service charges receivables which were outstanding as at year end are analysed below:-

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
0-90 days	1 310 680	1 307 505	223 582	244 355
Over 90 days	1 485 401	4 438 813	224 850	87 284
	2 796 081	5 746 318	448 432	331 639

10. RECEIVABLES (Continued)

	Group 2018 K'000	Group 2017 K'000	Company 2018 K'000	Company 2017 K'000
Movement in provision for doubtful receivables				
Balance at beginning of the year	237 883	45 248	65 867	31 483
Amounts written-off during the year	-	(965)	-	(965)
Amounts recovered during the year	(110 428)	(23 076)	-	(12 723)
IFRS 9 adjustment	160 753	-	(47 317)	-
Increase in allowance recognised in the profit or loss	236 532	216 676	41 812	48 072
Balance at end of the year	524 740	237 883	60 362	65 867

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 for the Group accounts for approximately 44% (2017:46) {company 38% (2017: 63%)} 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 credit provision required in excess of the loss allowance for trade receivables.

IFRS 9 standard became effective for annual periods on or after 1 January 2018 with earlier application permitted. The Group therefore adopted the standard in the current reporting period.

The general requirement is that an entity must apply IFRS 9 retrospectively at the date of initial application. The Group has elected to not restate the comparative financial statements. Accordingly, the difference between the previous (IAS 39) and new (IFRS 9) carrying values was recognized in the opening distributable reserves as at 1 January 2018.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which debtors operate and on the assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognized a loss allowance of 100% against all receivables that were handed over to external debt collectors. The Group has recognized a loss allowance for all Government receivables at 1.5%. This was based on the directors' judgment in the determination of the probability of default and loss given default.

The following table details the risk profile of trade receivables other than from Government and those handed over to external collectors based on the Group's provision matrix. As the Group's historical credit loss allowance does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

Group

Trade receivables for Government-days past due

	Current days MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000	Total MK'000
Estimated total gross carrying amount at default	648 208	411 382	159 383	15 591	1 500 879	2 735 443
	1.5%	1.5%	1.5%	1.5%	1.5%	
Lifetime ECL	9 723	6 171	2 391	234	22 513	41 032

Trade receivables for private tenants-days past due

	Current days MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000	Total MK'000
Estimated total gross carrying amount at default	195 752	95 450	70 451	52 153	466 945	880 751
	2%	1%	2%	5%	5%	
Lifetime ECL	3 915	955	1 409	2 608	23 347	32 234

10. RECEIVABLES (Continued)

Company

Trade receivables for Governments-days past due

	Current days MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000	Total MK'000
Estimated total gross carrying amount at default	246 121 8	5 938	24 394	17 135	50 969	424 557
	1.5%	1.5%	1.5%	1.5%	1.5%	
Lifetime ECL	3 692	1 289	366	257	765	6 369

Trade receivables for private tenants-days past due

	Current days MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000	Total MK'000
Estimated total gross carrying amount at default	101 780	46 931	16 997	12 415	31 150	209 273
	2%	1%	2%	5%	5%	
Lifetime ECL	2 035	469	340	621	1 558	5 023

11. RELATED PARTY TRANSACTIONS

At the year-end, the company had the following balances with subsidiary companies. The company also had staff loans and advances as disclosed in the statement of financial position and in this note below;

	Amounts (due to)/ due from subsidiaries 2018 K'000	2017 K'000
New Capital Properties Limited	(78 966)	(83 843)
Capital Developments Limited	(103 419)	(116 877)
Frontline Investments Limited	(19 203)	85 743
Capital Investments Limited	(24 392)	17 318
MPICO Malls Limited	825 949	478 151
Net amount due from subsidiaries	599 969	380 492
Amounts due to related parties	(225 980)	(200 720)
Amounts due from related parties	825 949	581 212
Net amount due from subsidiaries	599 969	380 492

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

	2018 K'000	2017 K'000
Pension contribution costs for the year	89 008	77 050
Contributions towards Group life cover	23 344	23 937
Rental income and service charges for the year	130 170	109 921
Old Mutual Group internal auditors' remuneration (excluding expenses)	-	15 774

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

11. RELATED PARTY TRANSACTIONS (Continued)

During the year, the company entered into the following transactions with its subsidiary companies.

	Company	
	2018	2017
	K'000	K'000
Management fees charged to subsidiaries	2 329 789	724 196
Interest charged to MPICO Malls Limited	-	393 015

Compensation of key management personnel

During the year loans totaling K37 million (2017: Nil) were advanced to employees in key positions. At 31 December 2018 the total loans balance outstanding from employees in key positions was K51.2 million (2017: K33.6 million). These loans were granted on the same interest and repayment terms as loans to other staff members. Furthermore, emoluments paid to the employees in key positions during the year were as follows:

	2018	2017
	K'000	K'000
Salary and pension	288 702	264 416

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

12. BORROWINGS

	Group		Company	
Borrowings summary	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Balance at 1 January	7 692 845	12 429 809	2 713 607	565 169
Additions during the year	4 557 470	2 713 607	-	2 713 607
Exchange loss/(gain) on foreign loans	(613 932)	453 016	-	-
Accrued interest	194 863	584 346	-	78 102
Conversion to equity	-	(7 126 786)	-	-
Repayments during the year	(7 078 913)	(1 361 146)	(2 713 607)	(643 271)
Balance at 31 December	4 752 333	7 692 846	-	2 713 607
Amounts due after 1 year	4 493 564	6 938 463	-	2 713 607
Amounts due within 1 year	258 769	754 383	-	-
Total borrowings	4 752 333	7 692 846	-	2 713 607

The company borrowed K4.6 billion from Standard Bank of Malawi. The loan is subject to interest charges at 1.5% below the bank's base lending rate per annum and as at year end the actual interest rate was 18%. The loan is repayable over a period of 5 years with a moratorium of 2 years. The loan is secured by investment property as disclosed in note 6.

13. Payables

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Accruals & property expenses	166 166	187 800	38 410	127 056
Prepaid rentals	181 081	255 312	109 874	170 531
Other payables	60 490	91 538	11 397	36 378
Provisions	143 481	720 773	143 481	129 949
Total payables	551 218	1 255 423	303 162	463 914

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

Property expenses payables relate to unpaid but booked 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.

14. CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Funds at call and on deposit	2 153 451	5 079	1 710	1 285
Bank balances and cash	415 083	135 160	47 850	59 015
Total funds on deposit and banks	2 568 534	140 239	49 560	60 300
Bank overdraft	(285 658)	(389 772)	(256 103)	(389 772)
Total cash and cash equivalents	2 282 876	(249 533)	(206 543)	(329 472)

The group has an overdraft facility of K300 million (2017: K300 million) with FDH Bank Limited and K300 million (2017: K300 million) with National Bank of Malawi. The FDH facility is secured on Development House and accrues interest at the rate of 2% above the FDH Bank base lending rate. the facility was due for renewal on 31 December 2018 and has been renewed subsequent to year end. The National Bank of Malawi facility is secured as per note 6 and accrues interest at the rate of 1.5% below National Bank of Malawi base lending rate. These bank overdrafts are repayable on demand.

The deposits accounts are maintained with National Bank of Malawi plc and FDH Bank and attract interest at an average 6.6% (2017: 6%) per annum.

15. OTHER INCOME

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Management fees	-	-	2 329 789	724 196
Other income	152 935	163 476	109 191	398 126
Total other income	152 935	163 476	2 438 980	1 122 322

16. PROPERTY AND ADMINISTRATION EXPENSES

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Net property expenses	920 955	1 000 055	266 651	371 735
Salaries benefits and administration costs	1 237 474	947 832	1 124 344	878 946
Discounting costs	490 249	794 888	129 709	22 217
Impairment costs	487 318	221 500	-	-
Other costs	518 410	453 169	339 956	253 749
Total	3 654 406	3 417 444	1 860 660	1 526 647

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

17. PROFIT BEFORE TAXATION

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Profit before taxation is arrived at after charging/(crediting):-				
Auditors' remuneration	45 359	41 412	20 800	20 474
Group internal auditors' remuneration	-	15 774	-	15 774
Donations	11 354	5 000	7 500	5 000
Depreciation of plant and equipment	72 585	74 233	51 595	39 015
Profit on disposal of non-current assets	(4 242)	54 281	(3 969)	-
Directors' remuneration				
- fees for services as directors	77 255	44 105	22 058	21 673
- for managerial services	69 633	61 425	69 633	61 425
Bad debts	-	216 676	-	48 072
Pension costs	89 008	77 050	89 008	77 050
Staff costs -31 staff (30 in 2017)	895 602	709 766	895 602	709 766

18. TAXATION

Income tax	1 145 030	869 063	740 085	-
Deferred tax	981 768	1 145 136	422 302	740 146
Dividend tax	158 550	16 268	158 550	16 268
Total taxation charge	2 285 348	2 030 467	1 320 937	756 414

Reconciliation of effective tax rates to standard tax rate:

18a Reconciliation of effect tax rates to standard rates

Group

	Rate	2018 K'000	Rate	2017 K'000
Profit before tax income		9 067 697		7 123 335
Income tax based on tax profits	30%	2 720 309	30%	2 137 000
Non-deductible expense	3%	273 824	2%	159 942
Income not subject to tax at 30%	(5.5%)	(477 312)	(2)%	(151 463)
Other temporary differences	(2.5%)	(231 473)	(1)%	(115 012)
Effective tax rate	25%	2 285 348	29%	2 030 467

18b Reconciliation of effect tax rates to standard rates

Company

Profit before tax income Rate	Rate	2018 K'000	Rate	2017 K'000
		5 538 661		2 700 223
Income tax based on tax profits	30%	1 670 065	30%	810 067
Non-deductible expense	1%	32 821	6%	152 678
Income not subject to tax	(9%)	(471 015)	(13%)	(343 477)
Other temporary differences	2%	89 066	5%	137 146
Effective tax rate	24%	1 320 937	28%	756 414

19. INCREASE IN FAIR VALUE OF INVESTMENT PROPERTIES

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

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
Fair value adjustment credited to statement of comprehensive income	6 227 202	4 880 635	1 515 400	1 035 021
Related deferred tax	(1 583 232)	(1 464 191)	(454 620)	(310 506)
Minority interests	(2 035 858)	(1 141 860)	-	-
Amount transferred to non-distributable Reserves	2 608 112	2 274 584	1 060 780	724 515

20. EARNINGS PER SHARE

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

	2018 K'000	2017 K'000
Distributable profit	2 018 142	1 808 364
Non-distributable profit	3 053 689	2 274 585
Profit for the year attributable to equity holders of the parent	5 071 831	4 082 949
Weighted average number of ordinary shares for the purposes of basic earnings per share	2 298 047	2 298 047

21. DIVIDENDS DECLARED

The company declared a final dividend of K230 million in respect of 2017 profits and an interim dividend of K207 million during the year.

22. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Profit before taxation	9 067 697	7 123 335	5 538 661	2 700 223
Increase in fair value of investment properties	(5 277 441)	(4 880 635)	(1 515 400)	(1 035 021)
Interest income	(1 800 389)	(2 404 191)	(156 946)	(622 054)
Dividends receivable	-	-	(1 516 000)	(311 995)
Interest paid	1 112 988	1 410 357	181 755	152 851
Interest on redeemable preference shares	-	334 854	-	-
Depreciation	72 585	74 233	51 595	39 015
IFRS 9 impairment-prior year	(160 752)	-	47 317	-
Changes in trade and other receivables	6 740 992	(3 093 043)	(104 759)	(173 432)
Changes in trade and other payables	(704 205)	472 262	(160 752)	91 260
Profit/loss on disposal of non-current assets	4 242	(54 281)	3 969	-
Movement on intercompany balances	-	-	(219 477)	484 880
Net cash outflow from operating activities	9 055 717	(1 017 109)	2 149 963	1 325 727

23. 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.

	Group		Company	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Financial assets held at amortised cost				
Receivables	4 099 731	10 827 503	795 312	662 330
Amounts due from related parties	-	-	825 949	581 212
Dividends receivable	-	-	-	69 500
Taxation recoverable			-	570 557
Funds at call and on deposit	2 153 451	5 079	1 710	1 285
Bank balance and cash	415 083	135 160	47 850	59 015
Total financial assets	6 668 265	10 967 742	1 670 821	1 943 899
Financial liabilities held at amortised cost				
Amounts due from related parties	-	-	225 980	200 720
Borrowings	4 752 333	7 692 846	-	2 713 607
Payables	746 081	1 255 423	303 162	463 914
Taxation			110 711	-
Bank overdraft	285 658	389 772	256 103	389 772
Total financial liabilities	5 784 072	9 338 041	895 956	3 768 013

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

- Capital risk
- Foreign currency risk
- Interest rate 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.

23. FINANCIAL RISK MANAGEMENT (Continued)

Categorization of financial instruments (Continued)
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 3 to the 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 statement of changes in equity.

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.

	Group		Company	
	2018	**2017**	**2018**	**2017**
	K'000	**K'000**	**K'000**	**K'000**
Gearing ratio				
The gearing ratio at the year end was as follows:-				
Trade and other payables	551 218	1 255 423	303 162	463 914
Amounts due to related parties	-	-	225 980	200 720
Borrowings	4 752 333	7 692 846	-	2 713 607
Bank overdraft	285 658	389 772	256 103	389 772
Net debt	5 589 209	9 338 041	785 245	3 768 013
Equity	52 447 793	46 846 824	25 751 892	21 923 480
Net debt to equity ratio	10.7%	19.9%	3.0%	17.2%

(b) Foreign currency risk management
The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The exposure to foreign currency risk has significantly increased in the current year due to the engagement of the contractors and consultants involved in the construction of the Mall. The contractors and consultants invoice the group in foreign currency and fluctuations in the exchange rate would significantly affect the performance for the year through exchange gains and losses.

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

Liabilities

	2018	**2017**
	K'000	**K'000**
South African Rand	-	4 767

The Board reviews the foreign currency situation regularly to ensure there is adequate foreign currency to make payments to all payables when they fall due.

(c) 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.

(d) 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

23. FINANCIAL RISK MANAGEMENT (Continued)

Categorization of financial instruments (Continued)

(d) Credit risk management (Continued)

managed by proactively engaging Government 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 10) and cash and cash equivalents (note 14) recorded in the financial statements, grossed up for any allowances for losses, represents the group's maximum exposure to credit risk.

(e) 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 and company's remaining contractual 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 company can be required to pay.

GROUP

	Carrying amounts	Gross Nominal inflow/ outflow	1 - 3 months	3 - 12 months	Over 12 months
2018					
Assets					
Cash and bank balances	415 083	415 083	415 083	-	-
Funds at call and on deposit	2 153 451	2 153 451	2 153 451	-	-
Receivables	4 086 512	4 086 512	4 086 512	-	-
Total	6 655 046	6 655 046	6 655 046	-	-
Liabilities					
Trade and other payables	551 218	551 218	551 218	-	-
Borrowings	4 752 333	4 752 333	258 769	-	4 493 564
Bank overdraft	285 658	285 658	285 658	-	-
Total	5 589 209	5 589 209	1 095 645	-	4 493 564
2017					
Assets					
Cash and cash balances	135 160	135 160	135 160	-	-
Funds at call and on deposit	5 079	5 079	5 079	-	-
Receivables	10 827 504	10 827 504	10 827 504	-	-
Total	10 967 743	10 967 743	10 967 743	-	-
Liabilities					
Trade and other payables	1 255 423	1 255 423	1 255 423	-	-
Borrowings	7 692 845	7 692 845	2 902 203	535 786	6 938 462
Bank overdraft	389 772	389 772	389 772	-	-
Total	9 338 047	9 338 047	4 547 398	535 786	6 938 462

23. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk management (Continued)

COMPANY	Carrying amounts	Gross Nominal inflow/ outflow	1 - 3 months	3 - 12 months	Over 12 months
2018					
Assets					
Cash and bank balances	47 850	47 850	47 850	-	-
Funds at call and on deposit	1 710	1 710	1 710	-	-
Intercompany receivables	825 949	825 949	825 949	-	-
Receivables	767 089	767 089	767 089	-	-
Total	1 642 598	1 642 598	1 642 598	-	-
Liabilities					
Trade and other payables	303 162	303 162	303 162	-	-
Amounts due from related parties	225 980	225 980	225 980	-	-
Bank overdraft	256 103	256 103	256 103	-	-
Total	785 245	785 245	785 245	-	-

	Carrying amounts	Gross Nominal inflow/ outflow	1 - 3 months	3 - 12 months	Over 12 months
2017					
Assets					
Cash and cash balances	59 015	59 015	59 015	-	-
Funds at call and on deposit	1 285	1 285	1 285	-	-
Amounts due from related parties	81 212	581 212	581 212	-	-
Receivables	662 330	662 330	662 330	-	-
	1 303 842	1 303 842	1 303 842	-	-
Trade and other payables	463 914	463 914	463 914	-	-
Amounts due to related parties	200 720	200 720	200 720	-	-
Borrowings	2 713 607	2 713 607	-	2 713 607	-
Bank overdraft	389 772	389 772	389 772	-	-
Total	3 768 013	3 768 013	1 054 406	2 713 607	-

24. 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 K6 227 million (financial year 2017: K5 507 million).

25. FAIR VALUE MEASUREMENTS

IFRS 13 Fair Value Measurement establishes a single source of guidance for fair value measurement and disclosure and this applies to both financial and non-financial instruments items which either IFRS require or permit fair value measurements except for share based payments that are within the scope of IFRS 2 Share-Based Payment, leasing transactions that are within the scope of IAS 17 Leases and other measurements that have similarities to fair value but are not fair value such as Net Realisable Value (NRV) for measuring of inventories and value in use for impairment assessment purposes.

This note provides information about how the entity determines fair values of various financial assets and financial liabilities.

25. FAIR VALUE MEASUREMENTS (Continued)

25.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values. The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

25.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25.3 Fair value of financial assets and financial liabilities that are not measured at fair value on recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

GROUP

	Fair value hierarchy as at 31 December 2018		
	Level 1	**Level 2**	**Total**
	K'000	**K'000**	**K'000**
Financial assets			
Trade and other receivables	-	4 086 512	4 086 512
Taxation recoverable	-	84 507	84 507
Cash and bank balances	2 568 534	-	2 568 534
Total financial assets	2 568 534	4 171 019	6 739 553
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	746 081	746 081
Borrowings	-	4 752 333	4 752 333
Bank overdraft	-	285 658	285 658
Total financial liabilities	-	5 784 072	5 784 072

	Fair value hierarchy as at 31 December 2018		
	Level 1	**Level 2**	**Total**
	K'000	**K'000**	**K'000**
Financial assets			
Trade and other receivables	-	10 827 504	10 827 504
Taxation recoverable	-	811 231	811 231
Cash and bank balances	140 239	-	140 239
Total financial assets	140 239	11 638 735	11 778 974
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	1 255 423	1 255 423
Borrowings	-	7 692 846	7 692 846
Bank overdraft	-	389 772	389 772
Taxation payable	-	1 922 654	1 922 654
Total financial liabilities	-	11 260 695	11 260 695

25. FAIR VALUE MEASUREMENTS (Continued)

COMPANY

	Fair value hierarchy as at 31 December 2018		
	Level 1 K'000	Level 2 K'000	Total K'000
Financial assets			
Trade and other receivables	-	767 089	767 089
Amounts due from subsidiaries	-	825 949	825 949
Cash and bank balances	49 560	-	49 560
Total financial assets	49 560	1 593 038	1 642 598
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	303 162	303 162
Taxation payable	-	110 711	110 711
Amounts due to subsidiaries	-	225 980	225 980
Bank overdraft	-	256 103	256 103
Total financial liabilities	-	895 956	895 956

	Fair value hierarchy as at 31 December 2018		
	Level 1 K'000	Level 2 K'000	Total K'000
Financial assets			
Trade and other receivables	-	662 330	662 330
Amounts due from subsidiaries	-	581 212	581 212
Dividends receivable from subsidiaries	-	69 500	69 500
Taxation recoverable	-	570 557	570 557
Cash and bank balances	60 300	-	60 300
Total financial assets	60 300	1 883 599	1 943 899
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	463 914	463 914
Borrowings	-	2 713 607	2 713 607
Amounts due to subsidiaries	-	200 720	200 720
Bank overdraft	-	389 772	389 772
Total financial liabilities	-	3 768 013	3 768 013

26. CONTINGENT LIABILITIES

The group is currently contesting various civil cases filed by various plaintiffs. On advice from legal counsel, Nil (2017: K14 million) has been provided for in respect of these claims.

27. CAPITAL COMMITMENTS

	Group		Company	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
Authorised	1 318 300	836 600	813 300	585 600

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

28. ECONOMIC FACTORS

Economic factors relevant to the company's performance are set out below.

	2018	2017
Year-end exchange rate K/US$	737.3	725.6
Inflation rate	9.9%	7.7%
Bank base rate	23 %	35%

At the time of approval of these consolidated financial statements, there had been no significant changes to these statistics.

29. HOLDING COMPANY

The ultimate holding company is Old Mutual Malawi Limited.

30. EVENTS AFTER THE REPORTING PERIOD

One of the group's investment properties, Tikwere house had a fire incident in January 2018. It is suspected that the fire started from the air conditioning socket in one of the rooms on the fourth floor. The fire brigade responded quickly and contained the fire. According to assessments made by the group, the total financial impact of the fire was K5.8 million and the whole amount is expected to be recovered from the insurance company.

31. COMPARATIVE FIGURES

Certain prior year figures were regrouped and reclassified where necessary to conform to the current year presentation.

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