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

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

The notes on page 16 to 47 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

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

The notes on page 16 to 47 are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. Reporting entity

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

2. Basis of accounting

2.1 Statement of compliance

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

2.2 Basis of preparation

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

2.3 Functional and presentation currency

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

2.4 Use of judgments and estimates

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

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

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

3. Adoption of new and revised International Financial Reporting Standards

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31 December 2016

3.2 Standards and Interpretations in issue, not yet effective

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies

4.1 Basis of consolidation

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

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

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

Subsidiaries

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

Loss of control

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

Transactions eliminated on consolidation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.2 Plant and equipment

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

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

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

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

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

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

4.3 Investment properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.4 Finance costs and income

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

4.5 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.5 Taxation (Continued)

Current and deferred tax for the year

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

4.6 Foreign currencies

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

4.7 Defined contribution plan

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

4.8 Borrowing costs

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.9 Revenue recognition

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

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

4.10 Dividends from investments

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

4.11 Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised in profit or loss.

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4 11 Impairment (Continued)

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

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

4.12 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Dividends on ordinary shares

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

Other financial liabilities

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

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

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

De-recognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.13 Financial instruments

Classification

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

Financial assets

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

Loans and receivables

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

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

Cash and cash equivalents

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

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

Non-derivative financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.13 Financial instruments (continued)

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

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

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

5. Critical accounting judgments and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

Valuation of investment properties

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

Allowance for doubtful receivables

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

6. Operating segments

6.1 Operating segments

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

6.2 Products and services from which reportable segments derive their revenues

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

6.3 Segmental information

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

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

6.4 Information about major customers

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

6.4 Information about major customers (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

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

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

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

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

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

The following assumptions were used by the valuer:

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

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7 Investment properties (Continued)

Included in the investment properties balance as at 31 December 2016 were properties encumbered as follows:

7.1 *Development House in Lilongwe valued at K753 million*

The property is the subject of a charge in favour of FDH Bank Limited to secure a sum of K300 million overdraft facility registered in 2013.

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

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

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

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

7.3 *Centre House valued at K2.88 billion, Capital House in Lilongwe valued at K2.122 billion, Aquarius House valued at K773 million, Chief Kilipula valued at K959 million, Ekistics valued at K566 million, Old Mutual House valued at K1,011 million, Taurus House valued at K457 million and MPICO Gateway Mall valued at K20.34 billion.*

The properties are the subject of a charge in favour of Shelter Afrique and International Finance Corporation (IFC) to secure an initial loan of ZAR116.2 million in order to finance the construction of the Gateway Mall in MPICO Malls Limited. The loan was obtained in 2014.

8. Plant and equipment

See accounting policy Note 4.2

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

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8. Plant and equipment (Continued)

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

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

9. Capital work in progress

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

10. Related parties

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

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

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

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10. Related parties (Continued)

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

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

Compensation of key management personnel

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

	2016	2015
Salary and pension	294,137	321,234

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

Borrowings

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

11. Deferred tax

See accounting policy Note 4.5

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

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

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

12. Trade and other receivables

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

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

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

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

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

14.	**Cash and cash equivalents as stated in the statement of financial position**		
	See accounting policy Note 4.13		
	Funds at call and on deposit	726,625	1,842
	Bank balances and cash	127,697	258,261
		854,322	260,103
	Bank overdraft	(160,668)	(621,123)
	Cash and cash equivalents as presented in statements of cash flows	693,654	(361,020)

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

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

15.	**Share capital**		
	See accounting policy Note 4.12		
	Authorised:		
	3,000,000,000 Ordinary shares of 5t each (2015: 1,200,000,000 Ordinary Shares of 5t each)	150,000	60,000
	Issued and fully paid:		
	2,298,047,460 Ordinary shares of 5t each (2015: 1,149,023,730 Ordinary Shares of 5t each)		
	In issue at 1 January	57,451	57,451
	Ordinary shares issue during the year	57,451	-
	Total issued and fully paid share capital	114,902	57,451

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