



Responsibilities of directors for separate financial statements

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

In preparing the 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.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 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 separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Joel Mwenelupembe
Chartered Accountant
(Malawi) Partner

Lilongwe, Malawi

Date 31 March 2017



SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of Malawi Kwacha

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Non-current assets			
Investment properties	6 & 7	11,726,210	9,966,392
Plant and equipment	8	120,401	109,426
Investments in subsidiary companies	9	4,754,198	4,754,198
Related party loan	10	3,223,555	1,325,261
Secured staff loans	10	39,497	45,475
Total non-current assets		19,863,861	16,200,752
Current assets			
Trade and other receivables	11	488,898	191,270
Income tax recoverable	20	692,783	423,275
Amounts due from subsidiaries	10	865,372	237,943
Dividends receivable from subsidiaries	10	759,396	350,708
Cash and cash equivalents	12	804,406	21,337
Total current assets		3,610,855	1,224,533
TOTAL ASSETS		23,474,716	17,425,285
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	114,902	57,451
Share premium	14	8,626,938	-
Distributable reserves		2,348,460	2,419,958
Non-distributable reserves		8,359,905	7,128,197
Total equity		19,450,205	9,605,606
LIABILITIES			
Non-current liabilities			
Borrowings	15	-	4,029,597
Deferred tax liabilities	16	2,945,968	2,573,876
Total non-current liabilities		2,945,968	6,603,473
Current liabilities			
Borrowings	15	565,169	170,895
Trade and other payables	17	372,654	424,188
Bank overdraft	12	140,720	621,123
Total current liabilities		1,078,543	1,216,206
Total liabilities		4,024,511	7,819,679
TOTAL EQUITY AND LIABILITIES		23,474,716	17,425,285

The separate financial statements were approved and authorized for issue by the Board of Directors on 16 February 2017 and were signed on its behalf by:



CHAIRPERSON



MANAGING DIRECTOR

The notes on page 59 to 86 are an integral part of these separate financial statements.



SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of Malawi Kwacha

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Operating revenue			
Rental income	6	1,406,828	1,099,679
Increase in fair value of investment properties	6	1,759,583	941,976
Interest income		521,349	348,627
Other income	22	<u>652,690</u>	<u>1,292,076</u>
Total income		<u>4,340,450</u>	<u>3,682,358</u>
Operating expenses			
Property and administration expenses		(1,141,854)	(925,674)
Provision for doubtful receivables	11	<u>(18,195)</u>	<u>(27,606)</u>
Total operating expenses		<u>(1,160,049)</u>	<u>(953,280)</u>
Finance cost		<u>(1,648,099)</u>	<u>(1,437,935)</u>
Profit before income tax		1,532,302	1,291,143
Income tax expense	20	<u>(372,092)</u>	<u>(37,397)</u>
Total comprehensive income		<u>1,160,210</u>	<u>1,253,746</u>
APPROPRIATION OF PROFIT FOR THE YEAR			
Distributable reserves		(71,498)	504,658
Non-distributable reserves	18	<u>1,231,708</u>	<u>749,088</u>
		<u>1,160,210</u>	<u>1,253,746</u>

The notes on page 59 to 86 are an integral part of these separate financial statements.



SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of Malawi Kwacha

	Share capital	Share Premium	Distributable reserve	Non-distributable reserve	Total
For the year ended 31 December 2016					
At 1 January 2016	57,451	-	2,419,958	7,128,197	9,605,606
Total comprehensive income					
Distributable profit for the year	-	-	(71,498)	-	(71,498)
Non-Distributable profit for the year	-	-	-	1,231,708	1,231,708
Total comprehensive income	-	-	(71,498)	1,231,708	1,160,210
Transactions with owners of the company					
Issue of additional shares (note 14)	57,451	8,626,938	-	-	8,684,389
Total transactions with owners of the company	57,451	8,626,938	-	-	8,684,389
At 31 December 2016	114,902	8,626,938	2,348,460	8,359,905	19,450,205
For the year ended 31 December 2015					
At 1 January 2015	57,451	-	1,961,261	6,379,109	8,397,821
Total comprehensive income					
Distributable loss for the year	-	-	504,658	-	504,658
Non-Distributable profit for the year	-	-	-	749,088	749,088
Total comprehensive income	-	-	504,658	749,088	1,253,746
Transactions with owners of the company					
Dividend declared-Final 2013	-	-	(45,961)	-	(45,961)
Total transactions with owners of the company	-	-	(45,961)	-	(45,961)
At 31 December 2015	57,451	-	2,419,958	7,128,197	9,605,606

The distributable reserve is available for distribution to shareholders as dividends subject to a 10% withholding tax. The non distributable reserve relates to unrealized 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.

The notes on page 59 to 86 are an integral part of these separate financial statements.



SEPARATE STATEMENT OF CASH FLOWS

For year ended 31 December 2016

In thousands of Malawi Kwacha

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Net cash used in operations	21	<u>(450,033)</u>	<u>(136,126)</u>
Returns on investments and servicing of finance			
Dividends received		-	815,163
Interest received		521,349	348,627
Interest paid		(1,648,099)	(1,437,935)
Dividends paid		-	(45,961)
Net cash used in operating activities and servicing of finance		<u>(1,126,750)</u>	<u>(320,106)</u>
Taxation paid	20	<u>(269,503)</u>	<u>(285,321)</u>
Net cash used in operating activities		<u>(1,396,253)</u>	<u>(605,427)</u>
Cash flows from investing activities			
Additional investment properties	7	(235)	(842)
Additional plant and equipment	8	(47,143)	(63,466)
Proceeds on disposal of non-current assets		386	401,026
Net staff long-term loans movement		5,978	3,048
Net cash (used in)/ from investment activities		<u>(41,014)</u>	<u>339,766</u>
Cash flows from financing activities			
Borrowings proceeds	15	1,882,748	753,082
Related party loan	10	(1,898,294)	(247,175)
Loan repayment	15	(5,518,071)	(175,790)
Increase in capital	14	8,684,389	(204)
Net cash generated from financing activities		<u>3,150,772</u>	<u>329,913</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,263,472</u>	<u>(71,874)</u>
Cash and cash equivalents at the beginning of the year		<u>(599,786)</u>	<u>(527,912)</u>
Cash and cash equivalents at the end of the year	12	<u>663,686</u>	<u>(599,786)</u>
Additional information			
Movement in working capital		<u>2,523,990</u>	<u>(688,436)</u>

The notes on page 59 to 86 are an integral part of these separate financial statements.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. Reporting entity

MPICO Limited is domiciled in Malawi. The Company's registered office is at Old Mutual House, Robert Mugabe Crescent, P.O. Box 30459, Lilongwe. The company is primarily in the development, rentals and management of properties.

The company has the following controlled subsidiaries:

- 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.

Additionally, the Company prepares a set consolidated financial statements in accordance with IFRS 10 "*consolidated financial statements*".

2. Statement of compliance

The separate 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.

2.1 Basis of preparation

The separate 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.

2.2 Functional and presentation currency

The separate 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.

2.3 Use of judgments and estimates

In preparing these separate 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 separate financial statements is included in the following notes:

- Note 4.2: Estimate of useful lives and residual values.
- 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 separate statements

The adoption of these new and revised standards and interpretations did not have a significant impact on the separate financial statements.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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 after 1 January 2017 and earlier application is permitted; however, the company has not early applied the following new or amended standards in preparing these separate financial statements:

New or amended standards	Summary of requirements	Possible impact on the financial statements
IFRS 9 <i>Financial Instruments</i>	IFRS 9, published in July 2015, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . 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 Company separate financial statements in 2018 is not known and cannot reliably be estimated as it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting estimates and judgment that will be made in the future.
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction contracts</i> and IFRAC 13 <i>Customer Loyalty Programmes</i> . IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.	The Company has started assessing the potential impact of the standard.
IFRS 16 <i>Leases</i>	IFRS 16 <i>Leases</i> - 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, <i>Revenue from Contracts with Customers</i> is also adopted.	The Company has started assessing the potential impact on the separate financial statements.
IAS 12 <i>Income tax (Amended)</i> Recognition of deferred tax assets for unrealised losses	IAS 12 <i>Income tax (amended)</i> clarify the accounting for deferred tax assets for unrealized losses on debt instruments at fair value. IAS 12 <i>Income tax (amended)</i> is effective for annual reporting period beginning on or after 1 January 2017 with early adoption permitted.	The Company has started assessing the potential impact on the separate financial statements.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies(continued)

4.1 Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards and the Companies Act, 2013 of Malawi.

4.2 Plant and equipment

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

Plant and equipment are depreciated on a 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 and fittings,	5 years
Furniture and equipment	5 years
Generators	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 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 or 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 Company.

Depreciation

Depreciation is calculated to write off the cost of item of plant and equipment less their estimated residual values using a straight line method over their estimated useful lives and is generally recognized in profit or loss.

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 of Malawi. 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 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.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.3 Investment properties (Continued)

Property under construction

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 Company is able to measure its property at fair value reliably and /or Equipment, until either its fair value becomes reliably measurable or construction is complete, construction is complete any difference between the fair value at that date and its previous carrying amount is recognized in profit or loss.

4.4 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.

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 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 company'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 company separate 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 and associates, and interests in joint ventures, except where the company 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 from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.5 Taxation (Continued)

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 Company 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 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. 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.

4.6 Foreign currencies

(a) *Functional and presentation currency*

Items included in the separate financial statements of the company are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the company operates. The separate financial statements are presented in Malawi Kwacha, which is the company's functional and presentation currency.

(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 Pension fund

MPICO Limited contributes to a defined contribution pension scheme administered by Old Mutual Malawi who is 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 THE SEPARATE 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.

Dividend revenue from investments is recognized 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.

4.10 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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to 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 and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the company's non-financial assets, other than inventories and 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 useful life 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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination of assets.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.10 Impairment (Continued)

(iii) Non-financial assets (Continued)

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.

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.

4.11 Investment in subsidiaries

Investments in subsidiaries are recognised at cost to the company less impairments.

4.12 Dividend income

Dividends from investments are recognized when the shareholders' right to receive payment has been established.

4.13 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.

4.14 Financial liabilities and equity instruments issued by the company

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.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4 Significant accounting policies (Continued)

4.15 Financial liabilities and equity instruments issued by the company (Continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

All other financial assets or financial liabilities are recognised on the trade date which is the date on which the Company becomes a party to the contractual provisions of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, all financial assets are measured at fair value except for the company's originated loans and receivables (not held for sale) held to maturity, investments and other financial assets whose fair value cannot be reliably measured. Where the assets have a fixed maturity date they are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity date are measured at cost, less where applicable, permanent diminution in value.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These 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 giving rise to a contractual obligation on the company.

De-recognition of financial liabilities

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

4.16 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Significant accounting policies (Continued)

4.17 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.

4.18 Loans and receivables

Loans and receivables 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.

4.19 Share capital

Incremental costs directly attributable to the issue of an equity instruments are deducted from the initial measurement of the equity movement. Income tax relating to the transaction costs of an equity transaction is accounted for in accordance with IAS 12 *Income tax*.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder or if dividend payments are not discretionary. Coupon payments thereon are recognised in the income statement as an interest expense.

4.20 Trade and other payables

Trade and other payables are initially measured at fair value less any directly attributable transaction costs. Subsequently measured at amortised costs using the effective interest method.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of separate 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 company. 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.

5.1 Critical judgments in applying the company's accounting policies

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

Key sources of estimation uncertainty

Valuation of investment properties and capital work in progress

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.



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

5.1 Critical judgments in applying the company's accounting policies (continued)

Provision for doubtful receivables

Provision 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 company 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 company 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 company's current **15** (2015:15) investment properties. Though one of the properties contributed **K341** million (2015: K254 million) representing **24 %** (2015: 23%) of the total rental revenue in the current year and its value at **K1,407** million (2015: K1,254 million), no single investment property contributes close to 75% of the total revenue from external customers.

6.3 Segmental information

The Company'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.

6.4 Information about major customers

Included in total rentals income are rentals amounting to **K618 million** (2015: K684 million) in respect of properties rented by the Government of Malawi. At rental value of **44%** (2015: 62%), 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	285,210	205,256	2,187,293	1,791,975	395,083	124,868
Lilongwe	1,018,606	824,156	8,840,539	7,563,539	1,277,000	758,108
Other markets	103,012	70,267	698,378	610,878	87,500	59,000
Total	1,406,828	1,099,679	11,726,210	9,966,392	1,759,583	941,976



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

	<u>2016</u>	<u>2015</u>
7. Investment properties		
<i>See accounting policy Note 4.3</i>		
VALUATION		
Freehold	10,423,332	8,836,614
Leasehold	1,302,878	1,129,778
Total investment properties	11,726,210	9,966,392
Movements in the valuation of investment properties are set out below.		
VALUATION		
Freehold		
At the beginning of the year	8,836,614	8,003,296
Additions	235	842
Fair value adjustment	1,586,483	832,476
At the end of the year	10,423,332	8,836,614
Leasehold		
At the beginning of the year	1,129,778	1,020,278
Fair value adjustment	173,100	109,500
At the end of the year	1,302,878	1,129,778
Total valuation	11,726,210	9,966,392

The registers of land and buildings maintained by the Company are open for inspection at the registered offices of the Company as required by Section 16 of Companies Act, 2013 of Malawi.

Investment properties were revalued to fair value as at 31 December 2016 on the basis set out in note 4.4 to the separate financial statements. The fair value adjustment of MK 1.759 billion (2015: MK941.9 million) has been recognised in the increase in fair value of investment properties in profit or loss. The valuations were carried out by an independent registered valuer, Mr. T.G. Msonda BSc (L Admin), MSIM, MRICS, 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 IAS 40 Investments Properties requirement.

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

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.