MPICO

2017 ANNUAL REPORT

CONTENTS

CHAIRPERSON'S STATEMENT

The Group profit after tax more than doubled to MK5.1 billion in 2017 from MK2.0 billion in 2016, representing a year-on-year increase of 155%.

Economic Environment

The year 2017 registered gains in a number of areas. GDP annual growth rate rebounded to about 5.0% in 2017 from 2.5% in 2016. This was on account of favourable weather and improved macroeconomic environment. Headline Inflation decelerated to 7.7% in December 2017 from 20% in December 2016. Official gross foreign currency reserves rose to US$758.3 million in 2017 from US$605.2 million in 2016; representing 3.6 months import cover in 2017 compared to 2.9 months' cover in 2016. The Policy Rate was gradually reduced during the year to 16% p.a. in December 2017 from 24.0% in December 2016. Commercial banks consequently reduced their annual lending rates to 26.9% in 2017 from an average of 33.6% in 2016. The Malawi kwacha was relatively stable during the year at an average buying rate of around K734 to the US Dollar, although there was some weakening against the South African Rand towards the end of the year.

According to the Malawi Stock Exchange (MSE), the market was buoyant in 2017 as it registered a positive return on investment of 62.14% (62.09% in US$ terms) compared to a negative return of 8.53%(-15.70% in US$ terms) in 2016. It also recorded an increase in both total traded value and volume compared to the corresponding period 2016. In the period under review, the MSE listed NBS rights issue shares on 17 July, FMBCH through a corporate restructuring on 18 September and a 2-year Treasury Note on 9 October. In the same period FMB officially delisted FMB on 18 December. The MPICO plc share was amongst the top five gainers in the year registering an increase in value of 99.36%. The share rose from K7.83 at the beginning of the year to close at K15.61 per share in December 2017. Consequently, market capitalization of the company almost doubled in the year to K36 billion.

The MPICO plc share was amongst the top five gainers in the year registering an increase in value of 99.36%.

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

The IMF country reports have again pointed out the excessive levels of debt that the Government owes the private sector. Estimates put the total at around K200 billion. The MPICO Group was owed K8.0 billion as at 31 December 2017. Government arrears continued to choke the Group's operations during the year. This unfortunate situation has stifled progress in executing the company's strategic growth initiatives. The Group was, therefore, not able to meaningfully participate in the economic growth of the country as desired.

Property Market in Malawi

Despite the positive economic indicators noted above, the effective purchasing power of the populace did not significantly improve to positively affect the businesses for our tenants. This coupled with laxity of development control by local authorities led our tenants to seek office space against the authorities' provided By-Laws in residential areas. Consequently, this affected commercial property occupancy and sales, new construction projects and rent growth.

The rental reviews and adjustments during 2017 ranged from 17% to 28% across the Group portfolio. The Gateway occupancy levels continued to grow. The mall occupancy was at 74% at the start of the year and increased to 95.0% at the end of 2017. We are pleased with progress being made and the continued interest by prospective tenants as well as the growth in foot traffic.

Group Performance

The Board is pleased to announce the results of the Group for the year ended 31 December 2017. Overall Group results were excellent. Income increased by 13% to K13.0 billion in 2017 from K11.4 billion in 2016. The increase is mainly due to rent income growth. This was due to rent reviews, increased occupancy levels, mainly at the Gateway, and accruals resulting from the adoption of IAS 17.

Total expenditure for the year decreased to K5.8 billion in 2017 from K8.3 billion in 2016 largely due to lower finance costs emanating from reduced borrowings.

During the year, the Group continued the balance sheet restructuring efforts that were started in 2015. One of the subsidiaries, MPICO Malls Limited, did as a result, benefit with a complete turnaround of the business fortunes in 2017.

The Group profit after tax more than doubled to MK5.1 billion in 2017 from MK2.0 billion in 2016, representing a year-on-year increase of 155%.

Human Resources

MPICO was able to keep and recruit suitable employees. Staff participated in Employee Assistance Programme which aims at keeping the employees aware of their health status thereby increasing their productivity. The company continues to support training needs of employees.

Prospects for 2018

Major economic indicators are likely to show some resilience amid concerns of growing Government arrears to the private sector. The economy may also be adversely- impacted by crop failure due to drought and an outbreak of army worms, in some parts of the country. Water and electricity availability also continue to be challenges to the country's growth prospects.
The future of MPICO Group looks bright. The Group is committed to ensuring that its clients are provided with relevant property solutions and that there is growth in Shareholder value. The Group will continue with its Balance Sheet restructuring drive. Technical reviews will be undertaken on the Gateway to see if there are any structural issues that may need to be attended to ensure that the facility is resilient and is able to cope with harsh weather conditions. The Board and Management have put in place strategic plans and reviews to ensure that these objectives are achieved.

Edith Jiya
CHAIRPERSON

DIRECTORS

Mrs. E. Jiya, Chairperson

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

Mr. D. Kafoteka, Managing Director

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

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

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

Mr. C. Kapanga, Non-Executive Director

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

Mrs. V. Masikini, Independent Non-Executive Director

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

Ms. E. Salamba, Non-Executive Director

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

Ms. C. Kalaile, Non-Executive Director

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

Ms. F. Jacobs (RSA), Non-Executive Director

Faieda Jacobs has over 30 years of experience in property, ranging from valuations to property management and asset management. She holds a BA LLB from the University of Cape Town and works on strategic projects for Old Mutual Property, based in Pinelands, South Africa. Prior to this role she led a property management team. Her previous positions included key account management at Drake & Skull facilities management and property management at Allan Gray. She serves on several boards, including the Board of the Cape Town Central City Improvement District and is currentlr Deputy Chair of the Green Building Council of South Africa.

Mr. M. Mikwamba, Non-Executive Director

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

SENIOR MANAGEMENT

Mr. C. Katulukira, Financial Controller/Company Secretary

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

Mr. E. Jambo, Operations Manager

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

Mrs. E. Nyasulu, Operations & Marketing Manager

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

Mr. R. Butao, Senior Accountant

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

Mr. L. Mwabutwa, Facilities Manager

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

MPICO

DIRECTORS' REPORT
For the year ended 31 December 2017

The directors have pleasure in submitting the consolidated financial statements of MPICO plc for the year ended 31 December 2017.

Incorporation and registered office

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

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

Areas of operation

The Group has 28 (2016: 28) investment properties in the country mainly in Lilongwe, Mzuzu and Blantyre, which it lets out to the Government and the Private Sector.

Share capital

The authorized share capital of the holding company is **K150 million** (2016: K150 million) divided into **3,000,000,000** ordinary Shares of 5 tambala each (2016: 3,000,000,000 ordinary shares of 5 tambala each). The issued share capital is **K114.902 million** (2016: K114.902 million) divided into **2,298,047,460** ordinary shares of 5 tambala each (2016: 2,298,047,460 ordinary shares of 5 tambala each), fully paid.

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

	2017	2016
	%	**%**
Old Mutual Limited	**72.0**	72.0
General Public	**23.0**	23.0
Lincoln Investments Limited	**5.0**	5.0
	100.0	100.0

Profits and dividends

The directors report a net profit for the year of **K5.1 billion** (2016: K1.99 billion). An interim dividend of **K184 million** was declared and paid during the year.

Financial performance

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

Directors

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

Mrs. E. Jiya	-	Chairperson	All year
Mr. C. Kapanga	-	Member	All year
Mr. A. Barron	-	Member	All year
Mr. M. Mikwamba	-	Member	All year
Mrs. V. Masikini	-	Member	All year
Ms. E. Salamba	-	Member	All year
Mr. D. Kafoteka	-	Member	All year
Ms. F. Jacobs	-	Member	All year
Ms. C. Kalaile	-	Member	All year
Mr. C. Katulukira	-	Company Secretary	All year

Directors' interests

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

Mr. C. Kapanga	:	452,773 shares	(2016: 252,773 shares)
Mrs. E. Jiya	:	31,649 shares	(2016: 31,649 shares)

Activities

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

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

Auditors

The Group's independent auditors, Messrs KPMG, Chartered Accountants, have indicated their willingness to continue in office subject to the terms of the contract as auditors in respect of Group's 31 December 2018 consolidated financial statements.

BY ORDER OF THE BOARD

MANAGING DIRECTOR

CHAIRPERSON

Date 22 February 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2017

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements of MPICO plc, comprising the consolidated statement of financial position as at 31 December 2017 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

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

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

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

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

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

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

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

Approval of the consolidated financial statements

The consolidated financial statements as indicated above, were approved by the Board of Directors on **22 February 2018** and are signed on its behalf by:

MANAGING DIRECTOR

CHAIRPERSON

KPMG
Chartened Accountants and Business Advisors
Nurses Counsil Building
New Capital City Centre
P.O.Box 30463
Lilongwe 3, Malawi

Telephone: (265) 01 773 855/ 01 773 371
Fax: (265) 01 771 070
Email: mw-fminformation@kpmg.com
Website: www.kpmg.cpm/mw

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MPICO plc

Opinion

We have audited the consolidated financial statements of MPICO plc (the Group) set out on pages 17 to 44, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MPICO plc as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment properties *See Notes 4.3, 6 and 7 to the financial statements*	
The Group's investment properties comprise various developed properties for office and residential tenancy. The investment properties are measured at fair value, which amounted to **MK48.6 billion** at year end. The fair value adjustment recorded in net profit for the year in respect of investment properties was **MK4.9 billion**. The Group uses independent valuers to determine the fair values for all of the properties annually. Significant judgement is required by the valuer in determining the fair value of investment properties. Due to the significance of the balance to the financial statements as a whole, combined with the judgement associated with determining the fair value, this matter was determined to be a key audit matter in the audit of the consolidated financial statements in the current year.	In terms of the valuation of these properties, we evaluated the competence, capabilities and objectivity of the independent valuer, and their qualifications. In addition, we evaluated the scope of their work and their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We made use of our experience and knowledge of the market to evaluate the independent valuer's judgements, in particular: • The appropriateness of models used and their respective inputs; and • The significant assumptions made in the valuation. Furthermore, we tested a selection of significant data inputs underpinning the investment property valuations, including open market values, yield rates, rental income, tenancy schedules, capital expenditure details, and square meter details, against appropriate supporting documentation. We evaluated the disclosures in respect of the fair valuation of property against the requirements of International Financial Reporting Standards.

Other information

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

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

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

Responsibilities of directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG

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Joel Mwenelupembe
Chartered Accountant (Malawi)
Partner
Lilongwe, Malawi

Date 31 MARCH **2018**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
ASSETS			
Non-current assets			
Investment properties	6 & 7	**48,597,167**	43,510,442
Plant and equipment	8	**181,201**	721,600
Secured staff loans	9	**34,208**	39,497
Deferred tax assets	10	**2,152,718**	2,217,274
Total non-current assets		**50,965,294**	46,488,813
Current assets			
Trade and other receivables	11	**10,827,504**	7,734,461
Income tax recoverable	21	**811,231**	784,097
Cash and cash and equivalents	13	**140,239**	854,322
Total current assets		**11,778,974**	9,372,880
TOTAL ASSETS		**62,744,268**	55,861,693
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	**114,902**	114,902
Share premium	15	**8,626,938**	11,369,361
Distributable reserves		**1,811,650**	187,130
Non-distributable reserves		**17,101,726**	14,827,141
Equity attributable to equity holders of the parent		**27,655,216**	26,498,534
Non-controlling interests	25	**16,466,342**	1,460,181
Total equity		**44,121,558**	27,958,715
LIABILITIES			
Non-current liabilities			
Borrowings- long term portion	17	**6,938,463**	11,208,943
Redeemable preference shares	16	**-**	3,904,378
Deferred tax liabilities	10	**7,362,017**	6,281,436
Total non-current liabilities		**14,300,480**	21,394,757
Current liabilities			
Borrowings - short term portion	17	**754,383**	1,220,866
Trade and other payables	18	**1,255,421**	783,160
Income tax payable		**1,922,654**	1,564,451
Dividend payable to non - controlling interest : preference shares	16	**-**	2,779,076
Bank overdraft	13	**389,772**	160,668
Total current liabilities		**4,322,230**	6,508,221
Total liabilities		**18,622,710**	27,902,978
TOTAL EQUITY AND LIABILITIES		**62,744,268**	55,861,693

The consolidated financial statements were approved and authorized for issue by the Board of Directors on **22 February 2018** and were signed on its behalf by:

MANAGING DIRECTOR

CHAIRPERSON

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
Operating revenue			
Rental income	6	**5,507,380**	3,782,253
Interest income on rentals	12	**2,370,351**	2,494,473
Revenue		**7,877,731**	6,276,726
Increase in fair value of investment properties	6	**4,880,635**	5,087,099
Other income		**163,476**	87,993
Total income		**12,921,842**	11,451,818
Operating expenses			
Property and administration expenses	22	**(3,417,444)**	(1,744,681)
Allowance for doubtful receivables	11	**(216,676)**	(28,516)
Total operating expense		**(3,634,120)**	(1,773,197)
Finance cost			
Interest income on bank deposits and staff loans		**33,840**	85,115
Exchange loss on borrowings		**(453,016)**	(1,099,775)
Interest on redeemable preference shares	16	**(334,854)**	(1,477,768)
Finance costs on borrowings		**(1,410,357)**	(4,110,941)
Net finance cost		**(2,164,387)**	(6,603,369)
Operating profit before income tax		**7,123,335**	3,075,252
Income tax expense	21	**(2,030,467)**	(1,086,613)
Profit for the year		**5,092,868**	1,988,639
APPROPRIATION OF PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Distributable reserves	23	**1,808,364**	(884,676)
Non-distributable reserves	23	**2,274,585**	2,842,832
Amounts attributable to members of the parent		**4,082,949**	1,958,156
Amounts attributable to non - controlling interests	25(a)	**1,009,919**	30,482
		5,092,868	1,988,638
Earnings per share			
Basic and diluted (MK per share)	23	**1.78**	0.85
Analyzed as:			
Distributable (K)		**0.79**	(0.39)
Non-distributable (K)		**0.99**	1.24

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

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 2017							
At 1 January 2016	**114,902**	**11,369,361**	**187,130**	**14,827,141**	**26,498,534**	**1,460,181**	**27,958,715**
Total comprehensive income							
Distributable profit for the year			**1,808,364**		**1,808,364**	**(131,941)**	**1,676,423**
Non-Distributable profit for the year	**-**	**-**	**-**	**2,274,585**	**2,274,585**	**1,141,860**	**3,416,445**
Total comprehensive income	**-**	**-**	**1,808,364**	**2,274,585**	**4,082,949**	**1,009,919**	**5,092,868**
Transactions with owners of the company							
Dividends declared-Interim 2017	**-**	**-**	**(183,844)**	**-**	**(183,844)**	**(178,250)**	**(362,094)**
Additional capital by non-controlling interest	**-**	**-**	**-**	**-**	**-**	**11,432,069**	**11,432,069**
Share premium reclassification	**-**	**(2,742,423)**	**-**	**-**	**(2,742,423)**	**2,742,423**	**-**
Total transactions with owners of the company	**-**	**(2,742,423)**	**(183,844)**	**-**	**(2,926,267)**	**13,996,242**	**11,069,975**
Balance at 31 December 2017	**114,902**	**8,626,938**	**1,811,650**	**17,101,726**	**27,655,216**	**16,466,342**	**44,121,559**
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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
Cash flows from operating activities			
Net cash generated from/ (used in) operations	24	**1,353,401**	(2,361,203)
Returns on investments and servicing of finance			
Interest received		**(1,745,372)**	(4,110,941)
Interest paid		**(1,711,532)**	(4,025,827)
Net cash used in operating activities and servicing of finance	21	**(554,259)**	(369,861)
Taxation paid		**(2,265,791)**	(4,395,688)
Net cash used in operating activities			
Cash flows to investing activities	7	**(206,091)**	(794,515)
Additions to investment properties	8	**(79,553)**	(47,472)
Additions to plant and equipment		**600,000**	386
Proceeds on disposal of plant and equipment		**5,289**	5,978
Change in long-term loans		**319,645**	(835,623)
Net cash generated from /(used in) investment activities	17	**3,297,954**	4,997,290
Cash flows from financing activities		**(8,487,932)**	(6,129,691)
Proceeds from borrowings	17	**453,015**	1,099,775
Repayment of borrowings		**(2,779,076)**	-
Exchanges loss related to borrowings Preference dividends		**(3,904,378)**	-
Redemption of preference shares		**11,432,069**	8,684,389
Issue of shares in non-controlling interest Dividends paid to shareholders		**(183,844)**	-
Dividends paid to non-controlling interest		**(178,250)**	(4,575)
Net cash (used in)/ generated from financing activities		**(350,442)**	11,275,990
Net (decrease) / increase in cash and cash equivalents		**(943,187)**	1,054,674
Cash and cash equivalents at the beginning of the year		**693,654**	(361,020)
Cash and cash equivalents at the end of the year	13	**(249,533)**	693,654
ADDITIONAL STATUTORY DISCLOSURE			
Changes in working capital		**4,592,086**	4,185,461

1. Reporting entity

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

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.

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 consolidated financial statements.

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these financial statements:

New or amended standards	Summary of the requirements and possible impact on Group
IFRS 9 *Financial instruments*	International Financial Reporting Standard (IFRS) 9 - Financial Instruments was issued in July 2014 by the International Accounting Standards Board (IASB'S) replacing IAS 39. IFRS 9 includes requirements for recognition and de-recognition of financial instruments, measurement, impairment and general hedge accounting. The Standard is mandatorily effective for periods beginning on or after 1st January, 2018. IFRS 9 introduces innovations on three main fronts; • a more principle-based identification, classification and measurement of financial instruments; • an impairment model for basic lending instruments based on the recognition of expected credit losses (ECL); and • a principle-based general hedge accounting model that is more closely aligned with common internal risk management procedures. The general requirement is that an entity must apply IFRS 9 retrospectively at the date of initial application (other than hedging).The group has elected to not restate its comparative financial statements. Accordingly, the difference between the previous (IAS 39) and new (IFRS 9) carrying values will be recognised in the separate's opening retained earnings as at 1 January 2018.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

IFRS 9 *Financial instruments (Continued)*	**IFRS 9 Project Implementation** To effectively enable the implementation of the IFRS 9 requirements across the group, a project team has been constituted, comprising of members of staff and technical committee level. The IFRS 9 project implementation steering committee will provide strategic direction towards the implementation of the standard, monitor the implementation progress and identify required interventions and project interdependencies with other group initiatives. In order to ensure appropriate board oversight, the IFRS 9 steering committee will report on its activities, status and outcomes to Board's Audit, Risk and Compliance Committee (ARCC). The group's IFRS 9 implementation project is schedule to be completed by 30 June, 2018 and will use Interim Financial Statements for the year 2018 to test the group's readiness for the transition to IFRS 9. The results will be communicated to External Auditors with a view to assist management in determining the group's readiness. The results and findings will be communicated to both the ARCC and the group's Board. **IFRS 9 requirements** The group initial assessment of IFRS 9 impact is set out below: *Classification of financial assets and liabilities* IFRS 9 applies one classification approach for all types of financial assets based on two criteria; Business Model Test (the group's business model for managing the financial asset) and cash flow characteristics test (the contractual cash flow characteristics of the financial asset). The results of the assessment determines the classification of a financial asset under IFRS 9 and leads into one of the three classification categories: Amortized cost; Fair value through other comprehensive income (FVTOCI); and Fair value through profit or loss (FVTPL). Evaluation of the business models for its financial assets will be based on the six factors as follows;1) Objective of each portfolio; 2) Portfolio sale activities; 3) Risk parameter and how risk is managed; 4) Performance evaluation; 5) Management decision; and 6) Relative significance of various sources of income (rental income, Interest income or fair value gains and losses). The group will continue to measure its financial liabilities at amortised cost. The preliminary assessment of the group is that the new classification and measurement requirement will not have a huge impact on the group balance sheet as at 1 January 2018. However, there might be instances in which the classification and measurement of financial assets and financial liabilities will change from amortised cost to fair value and vice versa. Expected credit loss (ECL) impairment model. IFRS 9's ECL impairment model's requirements represent the most material impact on the financial statements. While the group has conducted a preliminary impact of ECLs, it is not in a position to be able to disclose the result since the new IFRS 9 prototype models are subject to finalization, validation and audit. The nature of IFRS 9's requirement when compared with IAS 39 impairment requirements will, if necessary, require additional impairment allowances. These allowances will be recognized in the group's retained reserves as at 1 January 2018. The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss). The assessment approach to recognizing impairment losses is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

	IFRS 9 requirements (continued) With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset increased significantly since initial recognition (unless the financial asset is exposed to a low level of credit risk) as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses. *Significant increase in credit risk or low credit risk* IFRS 9 does not give a specific approach to determine the significant increase in credit risk. The group will assess both qualitative and quantitative information. In using quantitative elements, group will consider the change in lifetime Probability of Default (PD) by comparing the lifetime PD at the reporting date with the lifetime PD at initial recognition. Further the Standard gives a guide for financial assets which are more than 30 days past due should be considered to have significantly increased in credit risk. However, the Group cannot solely rely on the 30 days past due presumption only, but incorporate reasonable and supportable forward-looking information. The 30 days past due presumption will only be applied if the forward looking information is not available without undue cost or effort. In addition to the criteria provided in the Standard, the group would consider the following qualitative factors in assessing significant increase in credit risk; Classification of the exposure by any credit rating agencies; Deterioration of relevant credit risk drivers of the counterparty; Debt restructuring due to financial difficulties; Evidence that full repayment of interest and principal without realization of collateral is unlikely, regardless of the number of days past due; Deterioration in credit worthiness due to factors other than those listed above. Historical information would also be used if forward looking information is not available to determine whether there has been significant increase in credit risk. *Default* While default is not specifically defined by IFRS 9, the group has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of: • when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions; or • when the counterparty is past due for more than 90 days. **Tax implications** Taxation Act only accepts specific provisions as allowable deductions for tax purposes, as such stage 1 and stage 2 losses are deemed to be general provisions which are not allowable deductions. These provisions might have a positive impact on the group balance sheet as result of deferred tax asset. Stage 3 losses leads to incurred losses and are allowable expenses since these will result into being specific provisions. **Implications on retained reserves** IFRS 9 will affect the group's retained reserves as a result of expected increase in impairment provisions. **Communication of transition impact** The group will communicate to the Board as well as the External Auditors through issuance of a transition report regarding the impact of Standard on the group's interim statement of changes in equity.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

IFRS 15 *Revenue from contracts with customers*	IFRS 15 establishes a comprehensive framework for determining whether, how muchand when revenue is recognised. 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. So far, the standard will not have a major impact on the financial statements.
IFRS 16 *Leases*	*IFRS 16 leases* - realizing its long outstanding goals of bringing leases on balance sheet for all companies that lease major assets for use in business will see an increase in reported assets or liabilities. The new standard takes effect in January 2019. Before that companies will need to gather significant additional data about their leases and make new estimates and calculations. 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 Company has started assessing the potential impact on the separate financial statements. So far, there is no significant impact on the separate financial statements since the Company only holds a few properties under the lease agreements and the values are immaterial.
IAS 40 Investments property	IAS 40 investment property (amendment to IAS 40) The IASB has amended the requirement in IAS 40 Investment property on when a company should transfer a property asset to, or from investment property. This is not expected to have significant impact on the company's separate financial statements.

4. Significant accounting policies

4.1 Basis of consolidation

The consolidated financial statements comprise MPICO plc, 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 50.1% 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.

4. Significant accounting policies (Continued)

4.1 Basis of consolidation (Continued)

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

4.2 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 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 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.

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

4. Significant accounting policies (Continued)

4.5 Taxation (Continued)

Deferred tax (Continued)

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.

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.

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. Unrecognized deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

Current and deferred tax for the year
Current and deferred tax are 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. Nonmonetary 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 plc contributes to a defined contribution pension scheme administered by Old Mutual Malawi Limited who

4. Significant accounting policies (Continued)

4.8 Borrowing costs (Continued)

are also a shareholder of the company. All payments made to the scheme are charged as an expense as they fall due.

4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

4.9 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.

Interest on rentals is charged on receivables in respect of outstanding rentals at 4% above the prevailing commercial bank lending rate.

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.

Dividend from investments is recognized when the shareholders' right to receive payment has been established.

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.

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 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").

4. Significant accounting policies (Continued)

4.10 Impairment (Continued)

ii) 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.

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 derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

4.11 Financial assets, liabilities and equity instruments

Classification

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

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 and trade payables, 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 Group's redeemable preference shares are classified as financial liabilities because they bear non-

4. Significant accounting policies (Continued)

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 respective 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.

Distributable and non-distributable profit for the year
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 Companies Act, 2013 of Malawi.

4.12 Financial instruments

Financial assets
The Group classifies its financial assets into loans and receivables and cash and cash equivalent. 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 cash and cash equivalent 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.

4.13 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.

5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements, in conformity with International Financial Reporting Standards (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 (Note 7)
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 projection.

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 management and 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** (2016: 28) investment properties. Though one of the properties contributed **K647 million** (2016: K512 million) representing **12%** (2016: 14%) of the total rental revenue in the current year and its value at **K3,227 million** (2016: K2,977 million), no single investment property contributes close to 75% of the total revenue from external customers.

6.3 Information about major customers

Included in total rental income are rentals amounting to **K2.552 billion** (2016: K2.149 billion) in respect of properties rented by the Government of Malawi. At rental value of **46%** (2016: 57%), the Government is the single largest tenant with the other rental revenues being evenly spread over several tenants.

6.4 Segmental information

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

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

	Rental income		Property value		Fair value increase	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Blantyre	**326,293**	285,211	**2,417,074**	2,187,293	**229,782**	395,083
Lilongwe	**5,089,189**	3,389,184	**45,398,715**	40,590,771	**4,601,853**	4,593,716
Other markets	**91,898**	107,858	**781,378**	732,378	**49,000**	92,300
Total	**5,507,380**	3,782,253	**48,597,167**	43,510,442	**4,880,635**	5,081,099

In thousands of Malawi Kwacha

6. Operating segments (Continued)

6.4 Segmental information (Continued)

	MPICO plc	MPICO Malls Limited	Capital Developments Limited	Frontline Investments Limited	New Capital Properties Limited	Capital Investments Limited	Total
2017							
Rental income							
Blantyre	**326,293**	**-**	**-**	**-**	**-**	**-**	**326,293**
Lilongwe	**1,236,467**	**1,557,834**	**495,334**	**369,325**	**462,118**	**968,111**	**5,089,189**
Other markets	**85,636**	**-**					**91,898**
Total	**1,648,396**	**1,557,834**	**495,334**	**369,325**	**6,262**	**-**	**5,507,380**
Properties values							
-							
Blantyre	**2,417,074**	**-**	**-**	**-**	**-**	**-**	**2,417,074**
Lilongwe	**9,605,040**	**23,242,500**	**2,413,500**	**2,038,135**	**2,386,000**	**5,713,540**	**45,398,715**
Other markets	**744,378**				**37,000**	**-**	**781,378**
Total	**12,766,492**	**23,242,500**	**2,413,500**	**2,038,135**	**2,423,000**	**5,713,540**	**48,597,167**
Fair value increases							
Blantyre	**229,782**	**-**	**-**	**-**	**-**	**-**	**229,782**
Lilongwe	**759,239**	**2,707,126**	**309,652**	**167,636**	**192,731**	**465,469**	**4,601,853**
Other markets	**46,000**				**3,000**		**49,000**
Total	**1,035,021**	**2,707,126**	**309,652**	**167,636**	**195,731**	**465,469**	**4,880,635**
2016							
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
Fair value increases							
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

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7. Investment properties
See accounting policy Note 4.3

	2017	2016
Valuation		
Freehold	**21,215,979**	18,886,705
Leasehold	**27,381,188**	24,623,737
Total investment properties	**48,597,167**	43,510,442

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

	2017	2016
VALUATION		
Freehold		
At the beginning of the year	**18,886,705**	15,748,341
Additions	**2,354**	235
Fair value adjustment	**2,326,920**	3,138129
At the end of the year	**21,215,979**	18,886,705
Leasehold		
At the beginning of the year	**24,623,737**	21,880,487
Additions	**203,737**	794,280
Fair value adjustment	**2,553,714**	1,948,970
At the end of the year	**27,381,188**	24,623,737
Total valuation	**48,597,167**	43,510,442

The registers of land and buildings maintained by the Group 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 2017 on the basis set out in note 4.3 to the consolidated financial statements. The valuations were carried out by independent registered valuer, Mr. T.G. Msonda BSc (L Admin), MRICS, MSIM, Chartered Valuation Surveyors of T.G. Msonda & Associates, in accordance with the Appraisal and Valuation Standards laid down by the Royal Institution of Chartered Surveyors and the International Valuation Standards and the resultant fair value increase was taken to profit or loss in line with the IAS 40 Investments Property requirements.

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

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

The following assumptions were used by the valuer:
- The valuation were made on the basis of the open market value. The methods used are the revaluation income 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 10%.
- Location of the commercial property which is prime and the office/shop space and land values in these areas.
- Current economic climate in the properties market.

The valuation model considered the present value of net cash flow to be generated from the properties taking into account void period, occupancy rate, lease incentive costs such as rent free periods and other costs not paid by the tenant. Among other factors the discount rate estimation considers the quality of the properties and its location.

Included in the investment properties balance as at 31 December 2017 were properties encumbered as follows:

7.1 Development House in Lilongwe valued at K827 million is the subject of a charge in favour of FDH Bank Limited to secure an overdraft facility registered in 2013.

7.2 Tikwere House valued at K1,587 million is the subject of a charge in favour of National Bank of Malawi to secure an overdraft facility of K300 million.

7.3 Centre House valued at K3,121 million, Capital House in Lilongwe valued at K2,314 million, Aquarius House valued at K829.5 million, Chief Kilupula valued at K1,051 million, Ekistics valued at K608.5 million, Old Mutual House valued at K1,109 million, Taurus House valued at K492 million and The Gateway valued at K23.2 billion.

These 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 mall (The Gateway) in MPICO Malls Limited. The loans were obtained in 2014.

In thousands of Malawi Kwacha

8. Plant and equipment

See accounting policy Note 4.2

	Fixtures and Fittings	Motor Generators	vehicles	Furniture and equipment	Total
COST					
At 1 January 2017	**92,419**	**86,094**	**49,800**	**844,403**	**1,072,716**
Additions	**51,138**	**-**	**-**	**28,415**	**79,553**
Disposals	**-**	**-**	**-**	**(591,031)**	**(591,031)**
At 31 December 2017	**143,557**	**86,094**	**49,800**	**281,787**	**561,238**
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
ACCUMULATED DEPRECIATION					
At 1 January 2017	**77,979**	**52,225**	**27,043**	**193,869**	**351,116**
Charge for the year	**5,957**	**6,527**	**10,837**	**50,912**	**74,233**
Disposal	**-**	**-**	**-**	**(45,312)**	**(45,312)**
At 31 December 2017	**83,936**	**58,752**	**37,880**	**199,469**	**380,037**
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
CARRYING AMOUNT					
At 31 December 2017	**59,621**	**27,342**	**11,920**	**82,318**	**181,201**
At 31 December 2016	14,440	33,869	22,757	650,534	721,600

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

9. Related parties

The ultimate holding company is Old Mutual Malawi Limited. MPICO plc 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 Malawi Limited, the parent company:

	2017	2016
Pension contribution costs for the year	**77,050**	58,565
Contributions towards Group life cover	**23,937**	18,422
Rental income and service charges for the year	**109,921**	53,520
Old Mutual Group internal auditors' remuneration (excluding expenses)	**15,774**	1,296

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

In thousands of Malawi Kwacha

9. Related parties

	2017	2016
Secured staff loans	**34,208**	39,497

Staff loans are issued to members of staff at concessionary rates. The recoverable amount of the loan balances was determined using the effective interest rate method and the difference between the carrying value and the recoverable amount was recognised as an impairment loss in profit or loss. The directors consider the carrying amounts of staff loan to approximate their fair values.

	2017	2016
Dividend payable to non-controlling interest	**178,250**	4,575

Compensation of key management personnel

No loans were advanced to employees in key positions during the year (2016 Nil). At 31 December 2017 the total loans balance outstanding from employees in key positions was **K33.6 million** (2016: K33.1 million). Furthermore, emoluments paid to the employees in key positions during the year were as follows:

	2017	2016
Salary and pension	**264,416**	294,137

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

Borrowings

	2017	2016
Old Mutual (Malawi) Limited (refer to Note 17)	**2,713,607**	6,443,684

All outstanding balances with this related party are priced on an arm's length basis and are to be settled in cash within the agreed time.

The balance is not secured. No expenses have been recognised in the current year or prior year for bad and doubtful debts in respect of amounts owed by the related party.

10. Deferred tax

See accounting policy Note 4.5

Deferred tax assets/(liabilities)	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Revaluation on surpluses on investment properties	**(1,385,500)**	(573,362)	**(7,443,749)**	(6,791,698)	**(8,829,249)**	(7,365,060)
Tax losses	**3,542,376**	2,849,156	**27,961**	(63,879)	**3,570,337**	2,785,277
Excess capital allowances	**(4,158)**	(58,520)	**53,771**	574,140	**49,613**	515,620
Total	**2,152,718**	2,217,274	**(7,362,017)**	(6,281,437)	**(5,209,299)**	(4,064,163)

Deferred tax assets / (liabilities) movement in the year

Year ended 30 December 2017	**Balance at 1 January**	**Recognized in Profit or loss**	**Balance at 31 December**
Revaluation of investment properties	**(7,365,060)**	**(1,464,189)**	**(8,829,249)**
Tax losses	**2,785,277**	**785,060**	**3,570,337**
Excess capital allowances	**515,620**	**(466,007)**	**49,613**
Total	**(4,064,163)**	**(1,145,136)**	**(5,209,299)**
Year ended 31 December 2016			
Revaluation of investments 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
	(4,129,470)	65,307	(4,064,163)

In thousands of Malawi Kwacha

11. Trade and other receivables

See accounting policy Note 4.12

	2017	2016
Rental and service charges	**6,162,799**	3,819,072
Prepaid property expenses	**1,076,045**	1,204,570
Valuation and consultancy receivables	**223**	-
Accrued interest on rentals	**3,728,633**	2,502,681
Staff receivables	**69,334**	38,404
Other receivables (VAT)	**28,352**	214,982
Allowance for doubtful receivables	**(237,883)**	(45,248)
Total receivables	**10,827,503**	7,734,461
Movement in allowance for doubtful receivables		
Balance at beginning of the year	**45,248**	37,828
Amounts written-off during the year	**(965)**	-
Amounts recovered during the year	**(23,076)**	(21,096)
Increase in allowance recognized in the profit or loss	**216,676**	28,516
Balance at end of the year	**237,883**	45,248

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 46% (2016: 57%) 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 **K8,041 million** (2016: K5,916 million). The total interest charged on overdue Government rentals and other tenants amounted to **K2,370 million** (2016: K2,494 million).

The Group has provided fully for all receivables that are over 90 days and had no movement on the account. Receivables which are over 90 days but with movement on the account have been provided at 50% of the outstanding amount. However, receivables due from Government have not been provided for because they are generally recoverable despite significant delays in settlement. The loss of value on outstanding balance is covered by interest charged.

12. Interest income on rentals

See accounting policy Note 4.9

	2017	2016
Interest on rental arrears	**2,370,351**	2,494,473

13. Cash and cash equivalents as stated in the statement of financial position

See accounting policy Note 4.12

	2017	2016
Funds at call and on deposit	**5,079**	726,625
Bank balances and cash	**135,160**	127,697
Cash and cash equivalents	**140,239**	854,322
Bank overdraft	**(389,772)**	(160,668)
Cash and cash equivalents as presented in statements of cash flows	**(249,533)**	693,654

The Group has an overdraft facility of **K300 million** (2016: K300 million) with FDH Bank Limited and K300 million (2016: 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 2017 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 FDH Bank and attract interest at an average **6%** (2016; 9%) per annum.

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14. Share capital

	2017	2016
See accounting policy Note 4.11		
Authorised:		
3,000,000,000 Ordinary shares of 5t each (2016: 3,000,000,000 Ordinary Shares of 5t each)	**150,000**	150,000
Issued and fully paid:		
2,298,047,460 Ordinary shares of 5t each (2016: 2,298,047,460 Ordinary Shares of 5t each)		
In issue at 1 January	**114,902**	57,451
Ordinary shares issue during the year	**-**	57,451
Total issued and fully paid share capital	**114,902**	114,902

15. Share premium

See accounting policy Note 4.11

	2017	2016
At the beginning of the year	**11,369,361**	2,742,423
Reclassification into non-controlling interest	**(2,742,423)**	-
Shares issued	-	8,626,938
At the end of the year	**8,626,938**	11,369,361

16a. Premium on redeemable shares

See accounting policy Note 4.11

	2017	2016
At the beginning of the year	**3,904,378**	3,904,378
Converted to equity	**(3,904,378)**	-
Premium on redeemable preference shares	**-**	3,904,378

During the year capital restructuring was done in MPICO Malls Limited (MML) whereby loans, preference share capital and premium on redeemable shares were all converted to equity in this subsidiary. Accordingly, the exercise resulted in conversion of premium preference shares of MK 3.9 billion to equity. The restructuring was approved by the boards of MPICO plc and MPICO Malls Limited. Other parties to the transaction were Old Mutual Life Assurance Company (Malawi) Limited, Magetsi Pension Fund and National Bank of Malawi Pension Fund as shareholders in MML.

16b. Dividend payable to non – controlling interest - preference shares

	2017	2016
At the beginning of the year	**2,779,076**	1,301,308
Interest on redeemable preference shares	**334,854**	1,477,768
Conversion to equity	**(3,113,930)**	-
	-	2,779,076

During the year capital restructuring was done in MPICO Malls Limited (MML) whereby loans, preference share capital and premium on redeemable shares were all converted to equity in this subsidiary. Accordingly, the exercise resulted in conversion of preference shares of MK 3.1 billion to equity. The restructuring was approved by the boards of MPICO plc and MPICO Malls Limited. Other parties to the transaction were Old Mutual Life Assurance Company, Magetsi Pension Fund and National Bank of Malawi (Malawi) Limited ension Fund as shareholders in MML.

In thousands of Malawi Kwacha

17. Borrowings

	National Bank of Malawi	Old Mutual (Malawi) Limited	International Finance Corporation (IFC)	Shelter Afrique	Total
2017					
At 1 January 2017	**742,026**	**6,443,684**	**3,028,898**	**2,215,201**	**12,429,809**
Additions during the year	**-**	**2,713,607**	**-**	**-**	**2,713,607**
Accrued interest	**63,200**	**521,146**	**-**	**-**	**584,346**
Exchange loss	**-**	**-**	**271,769**	**181,247**	**453,016**
Conversion to equity in a subsidiary	**(803,745)**	**(6,323,041)**	**-**	**-**	**(7,126,786)**
Repayments during the year	**(1,481)**	**(641,789)**	**(368,421)**	**(349,455)**	**(1,361,146)**
At December 2017	**-**	**2,713,607**	**2,932,246**	**2,046,993**	**7,692,846**
Amounts due after 1 year	**-**	**2,713,607**	**2,541,496**	**1,683,360**	**6,938,463**
Amounts due within 1 year	**-**	**-**	**390,750**	**363,633**	**754,383**
Total borrowings	**-**	**2,713,607**	**2,932,246**	**2,046,993**	**7,692,846**
2016					
At 1 January 2016	1,746,467	5,960,024	2,702,498	2,053,446	12,462,435
Additions during the year	985,936	1,401,200	-	-	2,387,136
Accrued interest	191,993	2,418,161	-	-	2,610,154
Exchange loss	-	-	674,348	425,427	1,099,775
Repayments during the year	(2,182,370)	(3,335,701)	(347,948)	(263,672)	(6,129,691)
At December 2016	742,026	6,443,684	3,028,898	2,215,201	12,429,809
Amounts due after 1 year	740,545	5,879,997	2,689,263	1,899,138	11,208,943
Amounts due within 1 year	1,481	563,687	339,635	316,063	1,220,866
Total borrowings	742,026	6,443,684	3,028,898	2,215,201	12,429,809

Borrowings summary	**2017**	2016
Balance at 1 January	**12,429,809**	12,462,435
Additions during the year	**2,713,607**	2,387,136
Exchange loss/gain on foreign loans	**453,016**	1,099,775
Accrued interest	**584,346**	2,610,154
Conversion to equity in MPICO Malls Limited	**(7,126,786)**	-
Repayments during the year	**(1,361,146)**	(6,129,691)
Balance at 31 December	**7,692,846**	12,429,809
Amounts due after 1 year	**6,938,463**	11,208,943
Amounts due within 1 year	**754,843**	1,220,866
Total borrowings	**7,692,846**	12,429,809

17.1 K2.7 billion from Old Mutual Life Assurance Company (Malawi) Limited (OMLAC), related party, being cost of 812,569 shares that OMLAC sold to MPICO plc in MPICO Malls Limited.

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

17.3 Securities for these borrowings have been outlined under note 7.

18. Trade and other payables

See accounting policy Note 4.12

	2017	2016
Accruals and property expenses payable	**187,800**	114,817
Prepaid rentals	**255,312**	210,371
Other payables	**91,536**	288,501
Provisions	**720,773**	169,471
	1,255,421	783,160

In thousands of Malawi Kwacha

18. Trade and other payables (Continued)

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

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

19. Changes in fair value of investment properties

See accounting policy Note 4.3

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

Fair value adjustment credited to:

Profit or loss	**4,880,635**	5,087,099
Related deferred tax	**(1,464,191)**	(1,525,602)
Non- controlling interests	**(1,141,860)**	(718,665)
Amount transferred to non-distributable reserves	**2,274,584**	2,842,832

20. Operating profit before income tax

Profit before taxation is arrived at after charging/(crediting):-

Auditors' remuneration	**41,412**	37,310
Group internal auditors' remuneration	**15,774**	1,296
Depreciation of plant and equipment	**74,233**	70,512
Profit on disposal of non-current assets	**54,280**	90
Directors' remuneration - fees for services as directors	**44,105**	32,005
- for managerial services	**61,425**	113,547
Bad debts	**216,676**	28,516
Pension costs	**77,050**	58,565
Staff costs	**709,766**	633,004

21a. Income tax expense

Income tax based on taxable profits at **30%** (2016:30%)	**869,063**	1,151,920
Deferred tax liability movement	**1,145,136**	(65,307)
Dividend tax	**16,268**	-
Total income expense	**2,030,467**	1,086,613

Reconciliation of effect tax rates to standard rates

Profit before tax income		**7,123,335**		3,075,252
Income tax based on tax profits	**30 %**	**2,137,000**	30%	922,576
Non-deductible expense	**2 %**	**159,942**	14%	417,402
Income not subject to tax	**(2) %**	**(151,463)**	(8%)	(235,739)
Other temporary differences	**(1) %**	**(115,012)**	(1%)	(17,626)
Effective tax rate	**29 %**	**2,030,467**	35%	1,086,613

21b. Income tax receivable

As at 1 January	**784,097**	426,443
Tax credit for the year	**581,393**	727,515
Tax paid during the year	**(554,259)**	(369,861)
As at 31 December	**811,231**	784,097

In thousands of Malawi Kwacha

22. Property and administration expenses

	2017	2016
Net property expenses	**1,000,055**	513,607
Salaries, benefits and administration costs	**947,832**	796,264
Discounting costs	**794,888**	-
Impairment costs	**221,500**	-
Other costs	**453,169**	434,810
Total property and administration expenses	**3,417,444**	1,744,681

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

23. Earnings per share

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

	2017	2016
Distributable profit	1,808,364	(884,676)
Non-distributable profit	2,274,585	2,842,832
Profit for the year attributable to equity holders of the parent	4,082,949	1,958,156
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,298,047	2,298,047
Basic earnings per share (K)	1.78	0.85
Diluted earnings per share (K)	1.78	0.85
Analysed as		
- Distributable (K)	0.79	(0.39)
- Non-distributable (K)	0.99	1.24

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

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

	2017	2016
Profit before taxation	7,123,335	3,075,252
Increase in fair value of investment properties	(4,880,635)	(5,087,099)
Interest received	(33,840)	(85,114)
Interest paid	1,410,517	4,110,941
Interest on redeemable preference shares	334,854	1,477,766
Depreciation	74,233	70,513
Changes in trade and other receivables	(3,093,041)	(5,502,499)
Changes in trade and other payables	472,259	(420,873)
Profit on disposal of non-current assets	(54,281)	(90)
Net cash inflows /(outflow) from operating activities	1,353,401	(2,361,203)

25. Group subsidiaries

See accounting policy Note 4.1

25a. NCI in subsidiaries

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

In thousands of Malawi Kwacha

25. Group subsidiaries (continued)

25a. NCI in subsidiaries (continued)

	Capital Investment Limited	Frontline Investments Limited	MPICO Malls Limited	Total
2017				
NCI percentage	**49.25%**	**30.5%**	**49.99%**	
Non-current assets	**5,723,766**	**2,042,736**	**25,448,148**	**33,214,650**
Current assets	**3,579,156**	**1,355,459**	**2,427,056**	**7,361,671**
Non-current liabilities	**(1,673,146)**	**(595,892)**	**(4,224,856)**	**(6,493,894)**
Current liabilities	**(1,164,873)**	**(528,111)**	**(1,393,232)**	**(3,086,216)**
Net assets	**6,464,903**	**2,274,192**	**22,257,116**	**30,996,211**
Revenue	**2,429,956**	**900,581**	**4,322,816**	**7,653,353**
Profit / (loss)	**1,242,894**	**397,268**	**554,363**	**2,194,525**
Total comprehensive income	**1,242,894**	**397,268**	**554,363**	**2,194,523**
Profit allocated to NCI	**612,124**	**121,167**	**276,628**	**1,009,919**
Net increase / (decrease) in cash and cash equivalents	**(1,765)**	**308**	**54,902**	**53,445**
2016				
NCI percentage	49.25%	30.5%	34.20%	
Non-current assets	5,261,652	1,876,310	23,127,764	30,265,726
Current assets	2,620,527	993,140	1,515,996	5,129,663
Non-current liabilities	(1,534,405)	(545,579)	(19,434,984)	(21,514,968)
Current liabilities	(825,765)	(346,945)	(5,096,084)	(6,268,794)
Net assets	5,522,009	1,976,926	112,692	7,611,627
Revenue	2,720,423	1,162,281	1,828,217	5,710,921
Profit / (loss)	1,819,279	770,509	(3,218,829)	(629,041)
Total comprehensive income	1,819,279	770,509	(3,218,829)	(629,041)
Profit allocated to NCI	895,995	235,005	(1,100,840)	30,160
Net decrease in cash and cash equivalents	(11,436)	(1,261)	(206,074)	(218,771)

25b. Non-controlling interest

Movement for the year	2017	2016
At 01 January	**1,460,181**	1,434,274
Profit allocated to NCI	**1,009,919**	30,482
Conversion to equity	**14,174,492**	-
Dividend paid to NCI	**(178,250)**	(4,575)
	16,466,342	1,460,181

Conversion to equity relates to capital restructuring that was done during the year in MPICO Malls Limited. The company a subsidiary of MPICO plc during the year. The restructuring resulted in conversion of loans (including intercompany and preference shares to equity.

26. Financial risk management

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Group's management of capital.

In thousands of Malawi Kwacha

26. Financial risk management (Continued)

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the consolidated financial statements.

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

(a) Capital risk management

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

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

(b) Market risk

(i) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies hence it is exposed to exchange rate fluctuations. The Group is exposed to foreign currency loans obtained from IFC and Shelter Afrique for ZAR49.9 million and ZAR34.8 million respectively. The amounts were used for the construction of the mall (The Gateway).

A The foreign currency risk sensitivity analysis below reflects the expected financial impact in Kwacha equivalent resulting from a 10% (2016:10%) shock to foreign currency risk exposures, with respect to derivative financial instruments, foreign denominated balances and accruals.

The sensitivity analysis reflects the sensitivity to profit or loss on the Group's foreign denominated exposures with all variables held constant.

(i) Foreign currency risk management (continued)

Liabilities	**2017**	2016
South African Rand	**ZAR84,767**	ZAR97,703
Impact of 10% weakening of the Kwacha on profit or loss	**ZAR 848**	ZAR 977
Impact of 10% strengthening of the Kwacha on profit or loss	**(ZAR 848)**	(ZAR 977)

(ii) Interest rate risk management

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

(c) Credit risk management

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

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

The carrying amount of receivables (note 11) and cash and cash equivalents (note 13) recorded in the consolidated financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk.

In thousands of Malawi Kwacha

26. Financial risk management (Continued)

(d) Liquidity risk management

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

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

	Carrying amounts	Gross Nominal inflow/ outflow	1 - 3 months	3 - 12 months	Over 12 months
2017					
Liabilities					
Trade and other payables	**1,255,420**	**1,255,420**	**1,255,420**	**-**	**-**
Borrowings	**7,692,846**	**7,692,846**	**218,597**	**535,786**	**6,938,463**
Bank overdraft	**389,772**	**389,772**	**389,772**	**-**	**-**
Total	**9,338,038**	**9,338,038**	**1,863,789**	**535,786**	**6,938,463**
2016					
Liabilities					
Trade and other payables	783,160	783,160	783,160	-	-
Borrowings	12,429,809	12,429,809	565,168	655,698	11,208,943
Dividend payable to minority - preference	2,779,076	2,779,076	-	-	2,779,076
Premium on redeemable preference shares	3,904,378	3,904,378	-	-	3,904,378
Bank overdraft	160,668	160,668	160,668	-	-
Total	20,057,091	20,057,091	1,508,996	655,698	17,892,397

(i) Valuation models

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

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

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

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, such as interest rate that use only observable market data and require little management judgement and estimation Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

In thousands of Malawi Kwacha

26. Financial risk management (Continued)

(d) Liquidity risk management (Continued)

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

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

31 December 2017		**Carrying amount**		**Fair value**			
Assets	**Note**	**Fair value**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other assets measured fair value							
Investment properties	6&7	**48,597,167**	**48,597,167**	**-**	**-**	**48,597,167**	**48,597,167**
		48,597,167	**48,597,167**	**-**	**-**	**48,597,167**	**48,597,167**
31 December 2016							
Other assets measured fair value							
Investment properties	6&7	43,510,442	43,520,442	-	-	43,510,442	43,510,442
		43,510,442	43,520,442	-	-	43,510,442	43,510,442

(f) Categories of financial instruments

	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2017				
Cash and cash equivalents	**140,239**	**-**	**140,239**	**140,239**
Secured staff loan	**34,208**	**-**	**34,208**	**34,208**
Trade and other receivables	**10,827,503**	**-**	**10,827,503**	**10,827,503**
Total	**11,001,950**	**-**	**11,001,950**	**11,001,950**
Trading liabilities				
Borrowings	**-**	**7,692,845**	**7,692,845**	**7,692,845**
Trade and other payables	**-**	**1,245,420**	**1,245,420**	**1,245,420**
Bank overdraft	**-**	**389,772**	**389,772**	**389,772**
Total	**-**	**9,328,037**	**9,328,037**	**9,328,037**
31 December 2016				
Cash and cash equivalents	854,322	-	854,322	854,322
Secured staff loan	39,497	-	39,497	39,497
Trade and other receivables	7,734,461	-	7,734,461	7,734,461
Total	8,628,280	-	8,628,280	8,628,280
Trading liabilities				
Borrowings	-	12,429,809	12,429,809	12,429,809
Premium on redeemable preference shares	-	3,904,378	3,904,378	3,904,378
Dividend payable to minority	-	2,779,076	2,779,076	2,779,076
Trade and other payables	-	783,160	783,160	783,160
Bank overdraft	-	160,668	160,668	160,668
Total	-	20,057,091	20,057,091	20,057,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

In thousands of Malawi Kwacha

27. Operating lease arrangements

The Group as lessor

Leasing arrangements

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

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounts to **K5.5 billion** (2016: K3.8 billion).

28. Contingent liabilities

There are a number of proceedings outstanding against the Group as at 31 December 2017. If defence against these actions is unsuccessful, the claims and litigation costs could amount to **K22.5 million** (2016: K14 million).

	2017	2016
29. Capital commitments		
Authorised	**836,600**	665,600

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

30. Exchange rates and inflation

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

	2017	2016
Kwacha/ US	**725.6**	725.4
Kwacha/Rand	**58.7**	50.4
Kwacha/ GBP	**974.4**	878.2
Kwacha/Euro	**865.1**	748.8
Inflation (%)	**7.7%**	19.9%

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

	2017	2016
Kwacha/ US	**733.8**	725.4
Kwacha/Rand	**60.9**	53.3
Kwacha/ GBP	**1,020.0**	891.8
Kwacha/Euro	**901.1**	760.5
Inflation (%)	**7.1%**	20%

31. Subsequent events

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

SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2017

MPICO

DIRECTORS' REPORT
For the year ended 31 December 2017

The directors have pleasure in submitting the separate financial statements of MPICO plc for the year ended 31 December 2017.

Incorporation and registered office

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

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

Areas of operation

The company has **15** (2016: 15) investment properties in the country mainly in Lilongwe and Blantyre, which it lets out to the Government and the Private Sector.

Share capital

The authorized share capital of the company is **K150 million** (2016: K150 million) divided into **3,000,000,000** ordinary Shares of 5 tambala each (2016: 3,000,000,000 ordinary shares of 5 tambala each). The issued share capital is **K114.902** million (2016: K114.902 million) divided into **2,298,047,460** ordinary shares of 5 tambala each (2016: 2,298,047,460 ordinary shares of 5 tambala each), fully paid.

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

	2017	2016
	%	**%**
Old Mutual Limited	**72.0**	72.0
General Public	**23.0**	23.0
Lincoln Investments Limited	**5.0**	5.0
	100.00	**100.00**

Profits and dividends

The directors report a net profit for the year of **K1,944 billion** (2016: K1.160 billion). An interim dividend of K184 million was declared and paid during the year.

Financial performance

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

Directors

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

Mrs. E. Jiya	-	Chairperson	All year
Mr. C. Kapanga	-	Member	All year
Mr. A. Barron	-	Member	All year
Mr. M. Mikwamba	-	Member	All year
Mrs. V. Masikini	-	Member	All year
Mrs. E. Salamba	-	Member	All year
Mr. D. Kafoteka	-	Member	All year
Ms. F. Jacobs	-	Member	All year
Ms. C. Kalaile	-	Member	All year
Mr. C. Katulukira	-	Company Secretary	All year

Director's interests

The directors noted below hold the following ordinary shares in the company at the year-end.

Mr. C. Kapanga	452,773 shares	(2016: 252,773 shares)
Mrs. E. Jiya	31,469 shares	(2016: 31,469 shares)

Activities

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

Subsidiaries of MPICO plc	Percentage of Control	Nature of operations
Capital Developments Limited	100.00%	Development and rental of property
New Capital Properties Limited	100.00%	Development and rental of property
Capital Investments Limited	50.75%	Development and rental of property
Frontline Investments Limited	69.50%	Development and rental of property
MPICO Malls Limited	50.10%	Development and rental of property

Auditors

The company's independent auditors, Messrs. KPMG, Chartered Accountants, have indicated their willingness to continue in office as auditors in respect of company's **31 December 2018** financial statements.

BY ORDER OF THE BOARD

MANAGING DIRECTOR

CHAIRPERSON

Date: 22 February 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2017

The Directors are responsible for the preparation and fair presentation of the separate financial statements of MPICO plc, comprising the statements of separate financial position at 31 December 2017 and the statements of separate profit or loss and other comprehensive income, separate changes in equity and separate cash flows for the year then ended, and the notes to the separate financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

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

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

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

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

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

The Directors have made an assessment of the company to continue as a going concern and have no reason to believe that the company will not be a going concern in the year ahead from the date of this statement.

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

Approval of the separate financial statements

The separate financial statements of the company as indicated above, were approved by the Board of Directors on **22 February 2018** and are signed on its behalf by:

MANAGING DIRECTOR

CHAIRPERSON

KPMG
Chartened Accountants and Business Advisors
Nurses Counsil Building
New Capital City Centre
P.O.Box 30463
Lilongwe 3, Malawi

Telephone: (265) 01 773 855/ 01 773 371
Fax: (265) 01 771 070
Email: mw-fminformation@kpmg.com
Website: www.kpmg.cpm/mw

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MPICO plc

Opinion

We have audited the separate financial statements of MPICO plc (the company) set out on pages 53 to 78 which comprise the separate statement of financial position as at 31 December 2017, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the separate financial position of MPICO plc as at 31 December 2017, and of its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties *See Notes 4.3, 6 and 7 to the financial statements*	
The Company's investment properties comprise various developed properties for office and residential tenancy. The investment properties are measured at fair value, which amounted to **MK 12.8 billion** at year end. The fair value adjustment recorded in net profit for the year in respect of investment properties was **MK1.04 billion**. The Company uses an independent valuer to determine the fair values for all of the properties annually. Significant judgement is required by the valuer in determining the fair value of investment properties. Due to the significance of the balance to the financial statements as a whole, combined with the judgement associated with determining the fair value, this matter was determined to be a key audit matter in the audit of the separate financial statements in the current year.	In terms of the valuation of these properties, we evaluated the competence, capabilities and objectivity of the independent valuer, and their qualifications. In addition, we evaluated the scope of their work and their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We made use of our experience and knowledge of the market to evaluate the independent valuer's judgements, in particular: • The appropriateness of models used and their respective inputs; and • The significant assumptions made in the valuation. Furthermore, we tested a selection of significant data inputs underpinning the investment property valuations, including open market values, yields rates, rental income, tenancy schedules, capital expenditure details, and square meter details, against appropriate supporting documentation. We evaluated the disclosures in respect of the fair valuation of property against the requirements of International Financial Reporting Standards.

Other information

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

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

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

Responsibilities of directors for the 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor's 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 auditor's 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 reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

KPMG

KPMG
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Joel Mwenelupembe
Chartered Accountant (Malawi)
Partner
Lilongwe, Malawi

Date 31 MARCH **2018**

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
ASSETS			
Non-current assets			
Investment properties	6 & 7	**12,766,492**	11,726,210
Plant and equipment	8	**105,034**	120,401
Investments in subsidiary companies	9	**13,814,663**	4,754,198
Related party loan	10	**-**	3,223,555
Secured staff loans	10	**34,208**	39,497
Total non-current assets		**26,720,397**	19,863,861
Current assets			
Trade and other receivables	11	**662,330**	488,898
Income tax recoverable	20	**570,557**	692,783
Amounts due from subsidiaries	10	**380,492**	865,372
Dividends receivable from subsidiaries	10	**69,500**	759,396
Cash and cash and equivalents	12	**60,300**	804,406
Total current assets		**1,743,179**	3,610,855
TOTAL ASSETS		**28,463,576**	23,474,716
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	**114,902**	114,902
Share premium	13	**8,626,938**	8,626,938
Distributable reserves		**3,383,910**	2,348,460
Non-distributable reserves		**9,084,420**	8,359,905
Total equity		**21,210,170**	19,450,205
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	15	**3,686,113**	2,945,968
Borrowings	14	**2,713,607**	-
Total non-current liabilities		**6,399,720**	2,945,968
Current liabilities			
Borrowings	14	-	565,169
Trade and other payables	16	**463,914**	372,654
Bank overdraft	12	**389,772**	140,720
Total current liabilities		**853,686**	1,078,543
Total liabilities		**7,253,406**	4,024,511
TOTAL EQUITY AND LIABILITIES		**28,463,576**	23,474,716

The separate financial statements were approved and authorized for issue by the Board of Directors on **22 February 2018** and were signed on its behalf by:

MANAGING DIRECTOR

CHAIRPERSON

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
Operating revenue			
Rental income	6	**1,648,396**	1,406,828
Interest income		**622,054**	521,349
Revenue		**2,270,450**	1,928,177
Increase in fair value of investment properties	6	**1,035,021**	1,759,583
Other income	24	**1,122,322**	652,690
Total income		**4,427,793**	4,340,450
Operating expenses			
Property and administration expenses	21	**(1,526,647)**	(1,141,854)
Allowance for doubtful receivables	11	**(48,072)**	(18,195)
Total operating expenses		**(1,574,719)**	(1,160,049)
Finance cost	22	**(152,851)**	(1,648,099)
Operating profit before income tax	18	**2,700,223**	1,532,302
Income tax expense	19	**(756,414)**	(372,092)
Profit for the year		**1,943,809**	1,160,210
APPROPRIATION OF PROFIT FOR THE YEAR			
Distributable reserves		**1,219,294**	(71,498)
Non-distributable reserves	17	**724,515**	1,231,708
		1,943,809	1,160,210

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Share capital	Share Premium	Distributable reserves	Non-distributable reserves	Total
For the year ended 31 December 2017					
At 1 January 2017	**114,902**	**8,626,938**	**2,348,460**	**8,359,905**	**19,450,205**
Total comprehensive income					
Distributable profit for the year	**-**	**-**	**1,219,294**	**-**	**1,219,294**
Non-Distributable profit for the year	**-**	**-**	**-**	**724,515**	**724,515**
Total comprehensive income	**-**	**-**	**1,219,294**	**724,515**	**1,943,809**
Transactions with owners of the company					
Interim dividend declared-2017	**-**	**-**	**(183,844)**	**-**	**(183,844)**
Total transactions with owners of the company	**-**	**-**	**(183,844)**	**-**	**(183,844)**
At 31 December 2017	**114,902**	**,626,938**	**3,383,910**	**9,084,420**	**21,210,170**
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 13)	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

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 section 99 of the Companies Act, 2013 of Malawi.

SEPARATE STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

In thousands of Malawi Kwacha

	Notes	2017	2016
Cash flows from operating activities			
Net cash used in operations	23	**1,914,407**	(12,933)
Returns on investments and servicing of finance			
Dividends received		**162,675**	-
Interest received		**33,374**	84,249
Interest paid		**(152,851)**	(1,648,099)
Dividends paid		**(183,844)**	-
Net cash generated from/(used in) operating activities and servicing of finance		**1,773,761**	(1,576,783)
Taxation received/(paid)	19 & 20	**105,957**	(269,503)
Net cash generated from /(used in) operating activities		**1,879,718**	(1,846,286)
Cash flows from investing activities			
Additional investment properties	7	**(5,261)**	(235)
Additional plant and equipment	8	**(23,648)**	(47,143)
Proceeds on disposal of non-current assets	-	**386**	
Investment in subsidiary company	9	**(9,060,465)**	-
Change in staff loans		**5,289**	5,978
Net cash used in investment activities		**(9,084,085)**	(41,014)
Cash flows from financing activities			
Borrowings proceeds	14	**2,713,607**	1,882,748
Related party loan paid	10	**3,223,555**	(1,898,294)
Loan repayment less accrued interest	14	**(643,271)**	(5,518,071)
Preference dividends		**917,318**	-
Increase in capital	13	-	8,684,389
Net cash generated from financing activities		**6,211,209**	3,150,772
Net (decrease)/ increase in cash and cash equivalents		**(993,158)**	1,263,472
Cash and cash equivalents at the beginning of the year		**663,686**	(599,786)
Cash and cash equivalents at the end of the year	12	**(329,472)**	663,686
Additional information			
Change in working capital		**(1,642,819)**	2,523,990

1. Reporting entity

MPICO plc 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 50.1% controlling interest.

Additionally, the Company prepares a set of 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 4.2 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 and presentation 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 4.1: Estimate of useful lives and residual values.
- Note 4.2: 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 financial statements

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

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted; however, the company has not early applied the following new or amended standards in preparing these financial statements:

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

New or amended standards	Summary of the requirements and possible impact on Group
IFRS 9 *Financial instruments*	International Financial Reporting Standard (IFRS) 9 - Financial Instruments was issued in instruments July 2014 by the International Accounting Standards Board (IASB'S) replacing IAS 39. IFRS 9 includes requirements for recognition and de-recognition of financial instruments, measurement, impairment and general hedge accounting. The Standard is mandatorily effective for periods beginning on or after 1st January, 2018. IFRS 9 introduces innovations on three main fronts; • a more principle-based identification, classification and measurement of financial instruments; • an impairment model for basic lending instruments based on the recognition of expected credit losses (ECL); and • a principle-based general hedge accounting model that is more closely aligned with common internal risk management procedures. The general requirement is that an entity must apply IFRS 9 retrospectively at the date of initial application (other than hedging).The group has elected to not restate its comparative financial statements. Accordingly, the difference between the previous (IAS 39) and new (IFRS 9) carrying values will be recognised in the separate's opening retained earnings as at 1 January 2018. **IFRS 9 Project Implementation** To effectively enable the implementation of the IFRS 9 requirements across the company, a project team has been constituted, comprising of members of staff and technical committee level. The IFRS 9 project implementation steering committee will provide strategic direction towards the implementation of the standard, monitor the implementation progress and identify required interventions and project interdependencies with other company initiatives. In order to ensure appropriate board oversight, the IFRS 9 steering committee will report on its activities, status and outcomes to Board's Audit, Risk and Compliance Committee (ARCC). The company's IFRS 9 implementation project is schedule to be completed by 30 June, 2018 and will use Interim Financial Statements for the year 2018 to test the company's readiness for the transition to IFRS 9. The results will be communicated to External Auditors with a view to assist management in determining the company's readiness. The results and findings will be communicated to both the ARCC and the company's Board. **IFRS 9 requirements** The company initial assessment of IFRS 9 impact is set out below: *Classification of financial assets and liabilities* IFRS 9 applies one classification approach for all types of financial assets based on two criteria; Business Model Test (the company's business model for managing the financial asset) and cash flow characteristics test (the contractual cash flow characteristics of the financial asset). The results of the assessment determines the classification of a financial asset under IFRS 9 and leads into one of the three classification categories: Amortized cost; Fair value through other comprehensive income (FVTOCI); and Fair value through profit or loss (FVTPL). Evaluation of the business models for its financial assets will be based on the six factors as follows; 1) Objective of each portfolio; 2) Portfolio sale activities; 3) Risk parameter and how risk is managed; 4) Performance evaluation; 5) Management decision; and 6) Relative significance of various sources of income (rental income, Interest income or fair value gains and losses). The company will continue to measure its financial liabilities at amortised cost.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

New or amended standards	Summary of the requirements and possible impact on Group
IFRS 9 *Financial instruments (continued)*	**IFRS 9 requirements** (continued) The preliminary assessment of the company is that the new classification and measurement requirement will not have a huge impact on the company balance sheet as at 1 January 2018. However, there might be instances in which the classification and measurement of financial assets and financial liabilities will change from amortised cost to fair value and vice versa. Expected credit loss (ECL) impairment model. IFRS 9's ECL impairment model's requirements represent the most material impact on the financial statements. While the company has conducted a preliminary impact of ECLs, it is not in a position to be able to disclose the result since the new IFRS 9 prototype models are subject to finalization, validation and audit. The nature of IFRS 9's requirement when compared with IAS 39 impairment requirements will, if necessary, require additional impairment allowances. These allowance will be recognized from the company's retained reserves as at 1 January 2018. The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss). The assessment approach to recognizing impairment losses is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument. With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset increased significantly since initial recognition (unless the financial asset is exposed to a low level of credit risk) as well as for certain contract assets and trade receivables or where the exposure is classified as in default. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses. *Significant increase in credit risk or low credit risk* IFRS 9 does not give a specific approach to determine the significant increase in credit risk. The company will assess both qualitative and quantitative information. In using quantitative elements, company will consider the change in lifetime Probability of Default (PD) by comparing the lifetime PD at the reporting date with the lifetime PD at initial recognition. Further the Standard gives a guide for financial assets which are more than 30 days past due should be considered to have significantly increased in credit risk. However, the Company cannot solely rely on the 30 days past due presumption only, but incorporate reasonable and supportable forward-looking information. The 30 days past due presumption will only be applied if the forward looking information is not available without undue cost or effort.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

New or amended standards	Summary of the requirements and possible impact on Group
IFRS 9 *Financial instruments (continued)*	In addition to the criteria provided in the Standard, the company would consider the following qualitative factors in assessing significant increase in credit risk; Classification of the exposure by any credit rating agencies; Deterioration of relevant credit risk drivers of the counterparty; Debt restructuring due to financial difficulties; Evidence that full repayment of interest and principal without realization of collateral is unlikely, regardless of the number of days past due; Deterioration in credit worthiness due to factors other than those listed above. Historical information would also be used if forward looking information is not available to determine whether there have been significant increase in credit risk. *Default* While default is not specifically defined by IFRS 9, the company has aligned the determination of default with its existing internal credit risk management definitions and approaches. Default is determined as occurring at the earlier of: • when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions; or • when the counterparty is past due for more than 90 days. **Tax implications** (continued) Taxation Act only accepts specific provisions as allowable deductions for tax purposes, as such stage 1 and stage 2 losses are deemed to be general provisions which are not allowable deductions. These provisions might have a positive impact on the company balance sheet as result of deferred tax asset. Stage 3 losses leads to incurred losses and are allowable expenses since these will result into being specific provisions. **Implications on retained earnings** IFRS 9 will affect the company's retained earnings as a result of expected increase in impairment provisions. **Communication of transition impact** The company will communicate to the Board as well as the External Auditors through issuance of a transition report regarding the impact of Standard on the company's interim statement of changes in equity
IFRS 15 *Revenue from contracts with customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. 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 Company has started assessing the potential impact of the standard. So far, the standard will not have a major impact on the Company's financial statements.
IFRS 16 Leases	IFRS 16 leases - realizing its long outstanding goals of bringing leases on balance sheet for all companies that lease major assets for use in business will see an increase in reported assets or liabilities. The new standard takes effect in January 2019. Before that companies will need to gather significant additional data about their leases and make new estimates and calculations. 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.

3. Adoption of new and revised International Financial Reporting Standards (Continued)

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

New or amended standards	Summary of the requirements and possible impact on Group
IFRS 16 *Leases (continued)*	The Company has started assessing the potential impact on the separate financial statements. So far, there is no significant impact on the separate financial statements since the Company only holds a few properties under the lease agreements and the values are immaterial.
IAS 40 *Investments property*	IAS 40 investment property (amendment to IAS 40) The IASB has amended the requirement in IAS 40 Investment property on when acompany should transfer a property asset to, or from investment property. These is not expected to have significant impact on the separate financial statements.

4. Significant accounting policies

4.1 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 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 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.

4.2 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.

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 construction is complete any difference between the fair value at that date and its previous carrying amount is recognized in profit or loss.

4. Significant accounting policies (Continued)

4.3 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. Unrecognized deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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 company 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 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.

4.4 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

4. Significant accounting policies (Continued)

4.4 Foreign currencies (Continued)

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.

4.5 Pension fund

MPICO plc 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.

4.6 Borrowing costs

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

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

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

4.7 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.

Interest on rentals is charged on receivables in respect of outstanding rentals at 4% above the prevailing commercial bank lending rate.

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.

4.8 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 companies 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.

4. **Significant accounting policies** (Continued)

4.10 Impairment (Continued)

ii) Non-financial assets (Continued)

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.

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 amortization, 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.

4.9 Investment in subsidiaries

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

4.10 Dividend income

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

4.11 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.

4.12 Financial 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.

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:

4. Significant accounting policies (Continued)

4.12 Financial instruments (continued)

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.

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.

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.

4.13 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.

4.14 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.

In thousands of Malawi Kwacha

4. Significant accounting policies (Continued)

4.15 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.

4.16 Expenses
Expenses are recognised in profit or loss on an accruals basis

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.

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 Managing Director 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** (2016: 15) investment properties. Though one of the properties contributed **K429 million** (2016: K341million) representing **27%** (2016: 24%) of the total rental revenue in the current year and its value at **K1,578 million** (2016: K1,407 million), no single investment property contributes close to 75% of the total revenue from external customers.

6.3 Information about major customers
Included in total rentals income are rentals amounting to **K196 million** (2016: K618 million) in respect of properties rented by the Government of Malawi. At rental value of **44%** (2016: 44%), the Government is the single largest tenant with the other rental revenues being evenly spread over several tenants.

6.4 Segmental information
The company's investment properties are situated principally in the two major cities in Malawi.

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

	Rental income		Property values		Fair value increase	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Blantyre	**326,292**	285,210	**2,417,075**	2,187,293	**229,782**	395,083
Lilongwe	**1,236,468**	1,018,606	**9,605,039**	8,840,539	**759,239**	1,277,000
Other markets	**85,636**	103,012	**744,378**	698,378	**46,000**	87,500
Total	**1,648,396**	1,406,828	**12,766,492**	11,726,210	**1,035,021**	1,759,583

In thousands of Malawi Kwacha

7. Investment properties

See accounting policy Note 4.2

	2017	2016
VALUATION		
Freehold	**11,363,614**	10,423,332
Leasehold	**1,402,878**	1,302,878
Total investment properties	**12,766,492**	11,726,210

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

VALUATION		
Freehold		
At the beginning of the year	**10,423,332**	8,836,614
Additions	**2,354**	235
Fair value adjustment	**937,928**	1,586,483
At the end of the year	**11,363,614**	10,423,332
Leasehold		
At the beginning of the year	**1,302,878**	1,129,778
Additions	**2,907**	-
Fair value adjustment	**97,093**	173,100
At the end of the year	**1,402,878**	1,302,878
Total valuation	**12,766,492**	11,726,210

The registers of land and buildings are maintained by the company 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 2017 on the basis set out in note 4.2 to the separate financial statements. The fair value adjustment of **MK1,035 million** (2016 MK1,759 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 valuations 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 thedate of valuation between a willing buyer and a willing seller dealing at arm's length.
- Yields range of 8% to 10%.
- Location of the commercial property which is prime and the office/shop space and land values in these areas.

The valuation model considered the present value of net cash flow to be generated from the properties taking into account void period, occupancy rate, lease incentive costs such as rent free periods and other costs not paid by the tenant. Among other factors the discount rate estimation considers the quality of the properties and its location.

Included in the investment properties balance as at 31 December 2017 were properties encumbered as follows:

Centre House Arcade valued at K3,120 million, Aquarius House valued at K830 million, Chief Kilupula Building valued at K1,051million, Ekistics House valued at K609 million, Old Mutual House valued at K1,109 million and Taurus House valued at K492 million.

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

In thousands of Malawi Kwacha

8. Plant and equipment

See accounting policy Note 4.1

	Fixtures and Fittings	Generators	Motor vehicles	Furniture and equipment	Total
COST					
At 1 January 2017	**68,839**	**44,651**	**49,800**	**185,845**	**349,135**
Additions	**1,639**	**-**	**-**	**22,009**	**23,648**
At 31 December 2017	**70,478**	**44,651**	**49,800**	**207,854**	**372,783**
At 1 January 2016	65,910	44,651	49,800	142,064	302,425
Additions	2,929	-	-	44,214	47,143
Disposal	-	-	-	(433)	(433)
At 31 December 2016	68,839	44,651	49,800	185,845	349,135
ACCUMULATED DEPRECIATION					
At 1 January 2017	**55,871**	**31,311**	**27,043**	**114,509**	**228,734**
Depreciation	**3,448**	**2,770**	**10,837**	**21,960**	**39,015**
At 31 December 2017	**59,319**	**34,081**	**37,880**	**36,469**	**267,749**
At 1 January 2016	51,894	28,541	16,206	96,358	192,999
Depreciation	3,977	2,770	10,837	18,288	35,872
Disposals	-	-	-	(137)	(137)
At 31 December 2016	55,871	31,311	27,043	114,509	228,734
CARRYING AMOUNT					
Carrying amount at 31 December 2017	**11,159**	**10,570**	**11,920**	**71,385**	**105,034**
Carrying amount at 31 December 2016	12,968	13,340	22,757	71,336	120,401

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

9 Investments in subsidiary companies (At cost)

See accounting policy Note 4.9

	2017 %	2016 %	2017	2016
Wholly owned subsidiaries				
New Capital Properties Limited	**100.00**	100.00	**570**	570
Capital Developments Limited	**100.00**	100.00	**68,969**	68,969
Other subsidiaries				
MPICO Malls Limited	**50.10**	65.80	**13,741,853**	4,681,388
Frontline Investments Limited	**69.50**	69.50	**1,870**	1,870
Capital Investments Limited	**50.75**	50.75	**1,401**	1,401
Total investment in subsidiary companies			**13,814,663**	4,754,198

The investments in subsidiary companies comprise ordinary shares and are stated at cost. The subsidiaries have no other forms of shares in issue. During the year capital restructuring was done in MPICO Malls Limited. This resulted in conversion of loans (including intercompany) and preference shares capital to ordinary shares in this subsidiary company. These shares were priced above their nominal value.

10 Related parties

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

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

In thousands of Malawi Kwacha

10 Related parties (Continued)

Amounts due (to)/ from related parties	**2017**	2016
New Capital Properties Limited	**(83,843)**	13,156
Capital Developments Limited	**(116,877)**	32,488
Frontline Investments Limited	**85,743**	74,108
Capital Investments Limited	**17,318**	85,338
MPICO Malls Limited	**478,151**	660,282
Net amount due (to) / from subsidiaries	**380,492**	865,372

The amounts due from subsidiaries are mainly due to management fees receivable that had been accrued as at year-end and Value Added Tax (VAT) paid on behalf of subsidiaries due to Group VAT registration. The amounts were yet to be refunded as at year-end. In order for MPICO Malls Limited to meet its short-term financial obligations, MPICO plc advanced some funds to the subsidiary during the year.

The intercompany balances payable are due to amounts received from tenants by MPICO plc on behalf of its subsidiaries but not refunded as at year-end. These loans are not secured and no expenses have been recognised in the current year or prior year for bad and doubtful debts in respect of amounts owed by the related party.

Related party loan:		
Non-current assets:		
MPICO Malls Limited	-	3,223,555

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

Pension contribution costs for the year	**77,050**	58,565
Contributions towards Group life cover	**23,937**	18,422
Rental income and service charges for the year	**59,557**	53,520
Old Mutual Group internal auditors' remuneration (excluding expenses)	**15,774**	1,296
Old Mutual loan	**2,713,607**	565,169

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

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

Management fees charged to subsidiaries	**724,196**	179,124
Interest charged to MPICO Malls Limited	**393,015**	230,449
Investments in other subsidiaries		
MPICO Malls Limited	**13,741,853**	4,681,388
Frontline Investments Limited	**1,870**	1,870
Capital Investments Limited	**1,401**	1,401
	13,745,124	4,684,659
Transaction with other related parties:		
Secured staff loans	**34,208**	39,497

In thousands of Malawi Kwacha

	2017	2016
10 Related parties (Continued)		

Staff loans are issued to members of staff at concessionary rates. The recoverable amount of the loan balances was determined using the effective interest rate method and the difference between the carrying value and the recoverable amount was recognised as an impairment loss in profit or loss. The directors consider the carrying amounts of staff loan to approximate their fair values.

Dividend receivable from subsidiaries	2017	2016
Frontline Investments Limited	**69,500**	10,425
MPICO Malls Limited - Preference shares dividend	**-**	748,971
	69,500	759,396

Compensation of key management personnel

No loans were advanced to employees in key positions during the year. At 31 December 2017 the total loans balance outstanding from employees in key positions was **K33.6 million** (2016: K33.1 million). These loans were granted on the same interest and repayment terms as loans to other staff members. Furthermore, emoluments paid to the employees in key positions during the year were as follows:

	2017	2016
Salary and pension	**264,416**	294,137

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

11. Trade and other receivables

See accounting policy Note 4.12

	2017	2016
Rental and service charges	**331,639**	192,644
Prepaid property expenses	**165,622**	27,866
Valuation and consultancy receivables	-	12,060
Accrued interest on rentals	**149,366**	130,211
Staff receivables	69,634	38,404
Other receivables (VAT)	11,937	119,196
Provision for doubtful receivables	**(65,868)**	(31,483)
Total receivables	**662,330**	488,898

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 **K353 million** (2016: K362 million). The total interest charged on overdue Government rentals and other tenants amounted to **K196 million** (2016: K207 million) for the year.

The company has provided fully for all receivables that are over 90 days and had no movement on the account. Receivables which are over 90 days but with movement on the account have been provided for at 50% of the outstanding amount. However, receivables due from Government have not been provided for because they are generally recoverable despite significant delays in settlement. The loss of value on outstanding balance is covered by the interest charged.

Movement in provision for doubtful receivables	2017	2016
Balance at beginning of the year	**31,483**	32,461
Amounts recovered during the year	**(12,723)**	(19,173)
Amounts written-off during the year	**(964)**	-
Increase in provision recognized in the profit or loss	**48,072**	18,195
Balance at end of the year	**65,868**	31,483

In determining the recoverability of rentals receivable, the company 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 **63%** (2016: 64%) 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 credit provision required in excess of the provision already made for doubtful receivables.

In thousands of Malawi Kwacha

12 Cash and cash equivalents as stated in the separate statement of financial position

S *ee accounting policy Note 4.13*

	2017	2016
Funds at call and on deposit	**1,285**	725,240
Bank balances and cash	**59,015**	79,166
	60,300	804,406
Bank overdraft	**(389,772)**	(140,720)
Cash and cash equivalents as presented in separate statement of cash flows	**(329,472)**	663,686

The Company has an overdraft facility of **K300 million** (2016: K300 million) with FDH Bank Limited and **K300 million** with National Bank of Malawi (2016: K300 million). The FDH facility is secured on Development House at the rate of 2.0% above the FDH base rate. The facility was due for renewal on 31 December 2017. The National Bank of Malawi facility is secured on Tikwere House at the rate of 1.5% below National Bank of Malawi base rate.

Most bank accounts are maintained with National Bank of Malawi and the deposits attract interest at an average 6% per annum (2016: 9%).

13a Share capital

See accounting policy Note 4.14

	2017	2016
Authorised:		
3,000,000,000 Ordinary shares of 5t each		
2016: 3,000,000,000 Ordinary Shares of 5t each)	**150,000**	150,000
Issued and fully paid:		
2,298,047,460 Ordinary shares of 5t each		
(2016: 2,298,047,460 Ordinary Shares of 5t each)		
In issue at 1 January	**114,902**	57,451
Ordinary shares issue during the year	**-**	57,451
Total issued and fully paid share capital	**114,902**	114,902

13b Share premium

	2017	2016
Share premium arising from rights issue	**8,626,938**	8,996,856
Ordinary share used	**-**	(57,451)
Rights issue transaction costs	**-**	(312,467)
At the end of the year	**8,626,938**	8,626,938

14 Borrowings

See accounting policy Note 4.6

	National Bank of Malawi	Old Mutual (Malawi) Limited	Total
2017			
At 1 January 2017	**1,481**	**563,688**	**565,169**
Accrued interest	**-**	**78,102**	**78,102**
Additions during the year	**-**	**2,713,607**	**2,713,607**
Repayments during the year	**(1,481)**	**(641,790)**	**(643,271)**
Closing balance	**-**	**2,713,607**	**2,713,607**
Amounts due after 1 year	**-**	**2,713,607**	**2,713,607**
Amounts due within 1 year	**-**	**-**	**-**
Total borrowings	**-**	**2,713,607**	**2,713,607**
2016			
At 1 January 2016	1,197,915	3,002,577	4,200,492
Accrued interest	-	896,812	896,812
Additions during the year	985,936	-	985,936
Repayments during the year	(2,182,370)	(3,335,701)	(5,518,071)

In thousands of Malawi Kwacha

14 Borrowings (Continued)

	National Bank of Malawi	Old Mutual (Malawi) Limited	Total
Closing balance	1,481	563,688	565,169
Amounts due after 1 year	-	-	-
Amounts due within 1 year	1,481	563,688	565,169
Total borrowings	1,481	563,688	565,169
Balance at 1 January		**565,169**	4,200,492
Additions during the year		**2,713,607**	985,936
Accrued interest		**78,102**	896,812
Repayments during the year		**(643,271)**	(5,518,071)
Balance at 31 December		**2,713,607**	565,169
Amounts due after 1 year		**2,713,607**	-
Amounts due within 1 year		**-**	565,169
Total borrowings		**2,713,607**	565,169

The Company owes Old Mutual Life Assurance Company (Malawi) Limited (OMLAC), related party, K2.7 billion being cost of 812,569 shares that OMLAC sold to MPICO plc in MPICO Malls Limited. The balance is not secured. No expenses have been recognised in the current year or prior year for bad and doubtful debts in respect of amounts owed by the related party.

15. Deferred tax assets / (liabilities)

See accounting policy Note 4.3

Deferred tax assets/(liabilities)	**Assets**		**Liabilities**		**Net**	
	2017	2016	**2017**	2016	**2017**	2016
Revaluation on surpluses on investments properties	**-**	-	**(3,745,653)**	(3,435,147)	**(3,845,653)**	(3,435,147)
Other timing differences	**-**	-	**27,961**	459,912	**27,961**	459,912
Excess capital allowances	**-**	-	**31,579**	29,267	**31,579**	29,267
Total	**-**	-	**(3,686,113)**	(2,945,968)	**(3,686,113)**	2,945,968)

Year ended 31 December 2017	**Balance at 1 January 2017**	**Recognized in Profit or loss**	**Balance at 31 December 2017**
Revaluation of investment properties	**(3,435,147)**	**(310,506)**	**(3,745,653)**
Other timing differences	**459,912**	**(431,951)**	**27,961**
Excess capital allowances	**29,267**	**2,312**	**31,579**
Total	**(2,945,968)**	**(740,145)**	**(3,686,113)**
Year ended 31 December 2016	**Balance as at 1 January 2016**		
Revaluation of investment properties	(2,907,272)	(527,875)	(3,435,147)
Other timing differences	302,161	157,751	459,912
Excess capital allowances	31,235	(1,968)	29,267
	(2,573,876)	(372,092)	(2,945,968)

In thousands of Malawi Kwacha

16. Trade and other payables

See accounting policy Note 4.15

	2017	2016
Accruals	**129,949**	126,107
Prepaid rentals	**170,531**	58,192
VAT payables	**36,378**	130,014
Property expenses payables	**127,056**	58,341
	463,914	372,654

Accruals are in respect of various expenses incurred but whose invoices had not yet been received as at year-end. Property expenses payables relate to unpaid but booked invoices for property maintenance and other directly attributable property management costs. No interest is chargeable on these payables and there is no specific allowed credit period from the date of the invoice, but the company's financial risk management policies include ensuring that invoices are paid within 30 days.

17. Changes in fair value of investment properties

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

	2017	2016
Fair value adjustment credited to Profit or loss	**1,035,021**	1,759,583
Related deferred tax	**(310,506)**	(527,875)
Amount transferred to non-distributable reserves	**724,515**	1,231,708

18. Operating profit before income tax

Profit before taxation is arrived at after charging: -

	2017	2016
Auditors' remuneration	**20,474**	20,990
Group internal auditors' remuneration	**15,774**	1,296
Depreciation of plant and equipment	**39,015**	35,872
Profit on disposal of non-current assets	**-**	90
Directors' remuneration - fees for services as directors	**21,673**	8,910
- for managerial services	**61,425**	113,547
Bad debts	**48,072**	18,195
Pension costs	**77,050**	58,365
Staff costs - **30 staff in 2017** (25 in 2016)	**709,766**	633,004

19. Income tax expense

See accounting policy Note 4.3

	2017	2016
Deferred tax charge	**740,145**	372,092
Dividend tax	**16,269**	-
Total taxation charge	**756,414**	372,092

20a Reconciliation of effect tax rates to standard rates

		2017		2016
Profit before tax income		**2,700,223**		1,532,302
Income tax based on tax profits	**30%**	**810,067**	30%	459,691
Non-deductible expense	**6%**	**152,678**	4%	54,611
Income not subject to tax	**(13%)**	**(343,477)**	(9%)	(132,372)
Other temporary differences	**5%**	**137,146**	(1%)	(9,838)
Effective tax rate	**28%**	**756,414**	24%	372,092

20b Income tax recoverable

	2017		2016
As at 1 January	**692,783**		423,280
Tax paid during the year	**(510,000)**	-	
Tax received during the year	**387,774**		269,503
As at 31 December	**570,557**		692,783

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2017

In thousands of Malawi Kwacha

21. Property and administration expenses
See accounting policy Note 4.16

Net property expenses	**371,735**	128,874
Salaries, benefits and administration costs	**878,946**	753,042
Discounting costs	**22,217**	-
Audit - external and internal	**36,246**	22,286
Transfer secretaries expenses	**43,557**	33,633
Depreciation	**39,015**	35,872
Subsistence and travelling costs	**61,979**	38,202
Other costs	**72,952**	129,945
	1,526,647	1,141,854

22. Finance expenses
See accounting policy Note 4.11

Interest expense	**152,851**	1,648,099

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

Profit before income tax		**2,700,223**	1,532,302
Increase in fair value of investment properties		**(1,035,021)**	(1,759,583)
Interest receivable		**(33,374)**	(84,249)
Dividends receivable		**(311,995)**	(408,689)
Interest payable		**152,851**	1,648,099
Depreciation		**39,015**	35,872
Changes in trade and other receivables		**(173,432)**	(297,631)
Changes in trade and other payables		**91,260**	(51,535)
Profit on disposal of non-current assets	-	**(90)**	
Movement on company balances		**484,880**	(627,429)
Net cash inflow/(outflow) from operating activities		**1,914,407**	(12,933)

24 Other income
See accounting policy Note 4.7

	2017	2016
Profit on disposal of non - current assets	**-**	90
Dividends income from subsidiaries	**311,995**	408,689
Other income	**810,327**	243,911
	1,122,322	652,690

Other income includes management and consultancy fees.

25 Financial risk management

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

	2017	2016
Financial assets		
Trade and other receivables	**662,330**	488,899
Dividend amounts from subsidiaries	**69,500**	759,396
Intercompany balances	**380,492**	865,372
Funds at call and on deposit	**1,285**	725,240
Bank balance and cash	**59,015**	79,166
Total financial assets	**1,172,622**	2,918,073
Financial liabilities		
Borrowings	**2,713,607**	565,169
Trade and other payables	**463,914**	372,655
Bank overdraft	**389,772**	140,720
	3,567,293	1,078,544

In thousands of Malawi Kwacha

25 Financial risk management (Continued)

(a) Capital risk management (Continued)

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

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

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

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

(a) Capital risk management

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

The Board reviews the capital situation on an annual basis and based on each review, the company will balance its overall capital structure through the payment of dividends and raising finance through borrowings or repaying any existing borrowings.

(b) Market risk

(i) Foreign currency risk management

The company seldom undertakes transactions denominated in foreign currencies. Its exposure to foreign currency risk is minimal, as the transaction denominated in foreign currency are not significant and are very rare.

(ii) Interest rate risk management

The company is exposed to interest rate risk as it has significant borrowings. All borrowings are at commercial rates based on the bank base lending rate. The company also charges interest on overdue rentals from government at 4% above the prevailing bank base lending rate. Changes to the base lending rate would have a significant impact on the results for the year.

(c) Credit risk management

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

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

The carrying amount of receivables (note 11) and cash and cash equivalents (note 12) recorded in the separate financial statements, grossed up for any allowances for losses, represents the company's maximum exposure to credit risk.

(d) Liquidity risk management

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

In thousands of Malawi Kwacha

25 Financial risk management (Continued)

matching the maturity profiles of financial assets and liabilities.

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

	Note	1-3 months	3-12 months	Over 12 months	Total
2017					
Liabilities					
Trade and other payables	16	**463,914**	**-**	**-**	**463,914**
Borrowings	14	**-**	**-**	**2,713,607**	**2,713,607**
Bank overdraft	12	**389,772**	**-**	**-**	**389,772**
Total		**853,686**	**-**	**2,713,607**	**3,567,293**
2016					
Liabilities					
Trade and other payables	16	372,654	-	-	372,654
Borrowings	14	565,169	-	-	563,169
Bank overdraft	12	140,720	-	-	140,720
Total		1,078,543	-	-	1,078,543

(e) Accounting classifications and fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(i) Valuation models

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

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

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

The company uses widely recognised valuation models for determining the fair value of common and simple financial instruments. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

In thousands of Malawi Kwacha

25 Financial risk management (Continued)

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

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

	Level 3	Total
31 December 2017		
Assets		
Investments properties	**12,766,492**	**12,766,492**
Total	**12,766,492**	**12,766,492**
31 December 2016		
Assets		
Investments properties	11,726,210	11,726,210
Total	11,726,210	11,726,210

(iii) Level 3 fair value measurements

Significant unobservable inputs are developed as follows:

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- The probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

f) Categories of financial instruments

	Loans and receivables	Amortised cost	Total carrying amount	Fair value
31 December 2017				
Cash and cash equivalents	**60,300**	**-**	**60,300**	**60,300**
Secured staff loan	**34,208**	**-**	**34,208**	**34,208**
Dividend receivable from subsidiaries	**69,500**	**-**	**69,500**	**69,500**
Trade and other receivables	**662,330**	**-**	**662,330**	**662,330**
Total	**826,338**	**-**	**826,338**	**826,338**
Trading liabilities				
Borrowings	**-**	**2,713,607**	**2,713,607**	**2,713,607**
Bank overdraft	**389,772**	**-**	**389,772**	**389,772**
Total	**389,772**	**2,713,607**	**3,103,379**	**3,103,379**
31 December 2016				
Cash and cash equivalents	804,406	-	804,406	804,406
Secured staff loan	39,497	-	39,497	39,497
Dividend receivable from subsidiaries	759,396	-	759,396	759,396
Trade and other receivables	488,898	-	488,898	488,898
Total	2,092,197	-	2,092,197	2,092,197
Trading liabilities				
Borrowings	-	565,169	565,169	565,169
Bank overdraft	140,720	-	140,720	140,720
Total	140,720	565,169	705,889	705,889

In thousands of Malawi Kwacha

26 Operating lease arrangements

The company as lessor

Leasing arrangements

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

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, amounts to **K1.6 billion** (2016: K1.4 billion).

27 Contingent liabilities

There are a number of proceedings outstanding against the company as at 31 December 2017. If defenceagainst these actions is unsuccessful, the claims and litigation costs could amount to **MK14 million** (2016:MK20 million).

28 Capital commitments

	2017	2016
Authorised	**585,600**	362,040

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

29 Exchange rates and inflation

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

	MK	MK
Malawi Kwacha/ US	**725.6**	725.4
Malawi Kwacha/Rand	**58.7**	50.4
Malawi Kwacha/ GBP	**974.4**	878.2
Malawi Kwacha/Euro	**865.1**	764.0
Inflation (%)	**7.7%**	19.9%
As at signing of these separate financial statements the above rates had moved as follows:		
Malawi Kwacha/ US	**733.8**	725.4
Malawi Kwacha/Rand	**60.9**	53.3
Malawi Kwacha/ GBP	**1,020.9**	891.8
Malawi Kwacha/Euro	**901.1**	760.5
Inflation (%)	**7.1%**	20%

30 Subsequent events

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

MINUTES OF THE 44th ANNUAL GENERAL MEETING OF THE COMPANY

MPICO

MINUTES OF THE 44th ANNUAL GENERAL MEETING OF THE COMPANY HELD ON THURSDAY THE 26TH JULY, 2017 IN NJAMBA ROOM, MOUNT SOCHE HOTEL, BLANTYRE

PRESENT

Mrs. E. Jiya	Chairperson
Ms. C. Kalaile	Director
Mr. M. Mikwamba	Director
Mrs. V. Masikini	Director
Mr. C. Kapanga	Director
Mr. A. Barron	Director
Ms. E. Salamba	Director
Mr. D. Kafoteka	Managing Director
Mr. C. Katulukira	Company Secretary

APOLOGIES

Ms. F. Jacobs

SHAREHOLDERS

Mazibayao Kamata Mbenje
Richard Butao
Esnart And Madalo Mlambira
Leonard B.C. Kasuma
Ellen Nyasulu
Wilfred G. Paligolo
James R. Kazembe
William Nathwere
Mary Kamchiputu
Paul Fitsimons
Rickey White
Christopher Kapanga
Cosmas Katulukira
Ellason Kanyenya
Chisomo Kanyenya
Olive A. Chikhula
Gloria Maere
Efford E. Gumulira
S.B.E. Majawa
Wesley Mankhomwa
Augustine Maele
C. Makadia
Mjedo Mkandawire
Justin Msamba
Kendrix Chimberekero
G.E. Mwamira
Blessings Wayne Nyasulu
A & M Zinyemba
Francis Chikadza
R.W. Kaima
M.B. Chikafa

PROXY NAME	SHAREHOLDER
Mazibayao Kamata Mbenje	Jahaziel Kamata Mbenje
Mazibayao Kamata Mbenje	Uzziel Kamata Mbenje
Edith Jiya	Maziko Jiya
Edith Jiya	Takondwa Jiya
Jafford Banda	Mpico Malls Ltd
B. Makwinja	J. Maere
M. Mphaka	
Frank Harawa	Luvinda CV
Ayanja Maele	
Douglas Masumbu	Mankhomwa
Joe Maere	I P Holdings
S.G. Kaunda	
M. Mwamira	D. Mwamira
Douglas David Nyirenda	David Paul Nyirenda
H. Kayawo	Jessie Kalua

IN ATTENDANCE

Joel Mwenelupembe	KPMG
Alexander Chimimba	KPMG
Madalitso Mitochi	MSE
T. Sabola	Times TV

C. Phiri	ZODIAK
Esnat Chilije	MSE
Garri Mathanga	Old Mutual
Benard Sande	Old Mutual
Damisoul Lopozo	Laura TV
David Magoa	Stock Brokers
Grace Ngulube	Laura TV
John Kamanga	MSE
Gift Kaimira	CAN Radio
Mary Chipofya	MSE
Douglas David Nyirenda	MSE
L. Dambuleni	Moneylink

1. NOTICE AND QUORUM

The notice of the meeting having been previously circulated was taken as read and the Secretary reported that a quorum existed.

2. RESOLUTIONS

The meeting adopted the following resolutions:

2.1 That the audited financial statements for the year ended 31st December 2016 together with the reports of the Auditors and Directors thereon be approved and adopted.

2.2 That no dividend be declared from the profits of 2016.

2.3 That KPMG be re-appointed as auditors for the year ending 31st December 2017.

2.4 Directorship

2.4.1 The resignation of Mr. Stewart Malata was noted.

2.4.2 The re-election of Mr. Chris Kapanga as Director of the Company was noted.

2.4.3 The re-election of Mr. Andrew Barron as Director of the Company was approved.

2.4.4 The appointment Ms. Chifundo Kalaile who was co-opted as a Director in the course of the year was approved.

2.4.5 The appointment Ms. Faieda Jacobs who was co-opted as a Director in the course of the year was approved.

2.5 That the remuneration of the Chairman and Non-Executive Directors be fixed as follows for the year ending 31st December 2017:

Directors' fees	
Chairman	K2, 800,000 per annum
Non-Executive Directors	K2, 400,000.00 per annum

Sitting Allowances	
Chairman	K66, 000.00 per sitting
Non-Executive Directors	K48, 000.00 per sitting

2.6 That authority be given to the board to determine the remuneration of the Managing Director.

3. OTHER BUSINESS

There was no further business of which due notice was given.

SIGNED: ……………………………………   DATE: …………………………

EDITH JIYA
CHAIRPERSON

NOTES

Graphic Elements
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