

**MPICO LIMITED**  
**SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

**MPICO LIMITED**

**SEPARATE FINANCIAL STATEMENTS  
For the year ended 31 December 2016**

<b><u>TABLE OF CONTENTS</u></b>	<b><u>PAGES</u></b>
Directors' report	1-2
Statements of directors' responsibilities	3
Separate independent auditor's report	4- 7
Separate statement of financial position	8
Separate statement of profit or loss and other comprehensive income	9
Separate statement of changes in equity	10
Separate statement of cash flows	11
Notes to the separate financial statements	12-39

## **MPICO LIMITED**

### **DIRECTORS' REPORT**

**For the year ended 31 December 2016**

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

#### **Incorporation and registered office**

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

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

	<u>2016</u>	<u>2015</u>
	%	%
Old Mutual Limited	72.0	57.0
General Public	23.0	33.0
Lincoln Investments Limited	<u>5.0</u>	<u>10.0</u>
	<u>100.00</u>	<u>100.00</u>

#### **Profits and dividends**

The directors report a net profit for the year of **K1.160 billion** (2015: K1.254 billion). No interim dividend was declared in 2016 for the company.

#### **Financial performance**

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

## MPICO LIMITED

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

#### Directors

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

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

#### Directors' interests

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

Mr. D. Mawindo	:	43,471 shares	(2015: 43,471 shares)
Mr. S. Malata	:	85,689 shares	(2015: 85,689 shares)
Mr. C. Kapanga	:	252,773 shares	(2015: 252,773 shares)

#### Activities

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

<u>Subsidiaries of MPICO Limited</u>	<u>Percentage of Control</u>	<u>Nature of operations</u>
Capital Developments Limited	100.0%	Development and rental of property
New Capital Properties Limited	100.0%	Development and rental of property
Capital Investments Limited	50.8%	Development and rental of property
Frontline Investments Limited	69.5%	Development and rental of property
MPICO Malls Limited	65.8%	Development and rental of property

#### Auditors

The company's independent auditors, Messrs. KPMG, Chartered Accountants and Business Advisors, have indicated their willingness to continue in office as auditors in respect of Company's 31 December 2017 financial statements.

#### BY ORDER OF THE BOARD



CHAIRPERSON



DIRECTOR

Date: 16 February, 2017

**MPICO LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**For the year ended 31 December 2016**

The Directors are responsible for the preparation and fair presentation of the separate financial statements of MPICO Limited, comprising the statements of separate financial position at 31 December 2016 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 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).

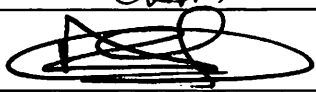
***Approval of the financial statements***

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

**CHAIRPERSON:**

  
\_\_\_\_\_

**DIRECTOR:**

  
\_\_\_\_\_



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

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E-mail: mw-fminformation@kpmg.com  
Website: www.kpmg.com/mw

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MPICO LIMITED

### Opinion

We have audited the separate financial statements of MPICO Limited (the Company) set out on pages 8 to 39 which comprise the separate statement of financial position as at 31 December 2016, 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 Limited as at 31 December 2016, 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 *Auditors' 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 Standard Board for Accountants' *Code for Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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

### 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 11.7 billion** at year end. The fair value adjustment recorded in net profit for the year in respect of investment properties was **MK1.8 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 matter of the most significance in the audit of the separate financial statements in the current year.

## How our audit addressed the key audit matter

In order to ensure that that all of the Company's investment properties had been valued, our audit included:

- Obtaining a schedule of the investment properties held by the Company and selecting some items for testing, taking into consideration newly acquired assets, and
- Inspecting title deeds to the properties included on the schedule to ensure that they are in the name of the Company, as well as checking if there were any encumbrances over the properties and whether these have been properly disclosed.

In terms of the valuation of these properties, we assessed the competence, capabilities and objectivity of the independent valuer, and verified their qualifications. In addition, we reviewed the scope of their work and their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them.

We made use of our experience and knowledge of the market to evaluate the independent valuer's judgements, in particular:

- The models used and their respective inputs; and
- The significant assumptions made in the valuation.

Furthermore, we tested a selection of data inputs underpinning the investment property valuations, including rental income, tenancy schedules, capital expenditure details, and square meter details, against appropriate supporting documentation.

We assessed the accounting treatment and related disclosure of the investment properties from an International Financial Reporting Standards perspective.

## Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' responsibilities, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the separate financial statements and our auditors' 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 auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of directors for the separate financial statements**

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

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

## **Auditors' responsibilities for the audit of the separate financial statements**

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

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

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

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



We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



KPMG



Joel Mwenelupembe  
Chartered Accountant (Malawi)  
Partner

Lilongwe, Malawi

Date 31 MARCH 2017

**MPICO LIMITED**

**SEPARATE STATEMENT OF FINANCIAL POSITION**

As at 31 December 2016

In thousands of Malawi Kwacha

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

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

  
\_\_\_\_\_  
CHAIRPERSON

  
\_\_\_\_\_  
DIRECTOR

The notes on page 12 to 39 are an integral part of these separate financial statements.

**MPICO LIMITED****SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2016

*In thousands of Malawi Kwacha*

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

The notes on page 12 to 39 are an integral part of these financial statements.

**MPICO LIMITED**

**SEPARATE STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

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

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

The notes on page 12 to 39 are an integral part of these financial statements.

**MPICO LIMITED****SEPARATE STATEMENT OF CASH FLOWS**

For the year ended 31 December 2016

*In thousands of Malawi Kwacha*

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

The notes on page 12 to 39 are an integral part of these separate financial statements.

## **MPICO LIMITED**

### **NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

#### **1. Reporting entity**

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

The company has the following controlled subsidiaries:

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

Additionally, the Company prepares a set 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 4.3 below. The principal accounting policies are set out in the following paragraphs.

##### **2.2 Functional and presentation currency**

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

##### **2.3 Use of judgments and estimates**

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

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

- Note 4.2: Estimate of useful lives and residual values.
- Note 4.3: Investment properties and measurement of fair values.

#### **3 Adoption of new and revised International Financial Reporting Standards**

##### **3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the separate financial statements**

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

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 3.2 Standards and Interpretations in issue, not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the company has not early applied the following new or amended standards in preparing these separate financial statements:

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

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4 Significant accounting policies

#### 4.1 Statement of compliance

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

#### 4.2 Plant and equipment

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

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

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

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

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

#### 4.3 Investment properties

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

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



**MPICO LIMITED**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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

**4.3 Investment properties (Continued)**

*Property under construction*

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

**4.4 Non-current assets held for sale**

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

**4.5 Taxation**

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

*Current tax*

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

*Deferred tax*

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences

that would 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.

## **MPICO LIMITED**

### **NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

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

##### **4.5 Taxation (Continued)**

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

##### *Current and deferred tax for the year*

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

##### **4.6 Foreign currencies**

###### *(a) Functional and presentation currency*

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

###### *(b) Transactions and balances*

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

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

##### **4.7 Pension fund**

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

##### **4.8 Borrowing costs**

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

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

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

## **MPICO LIMITED**

### **NOTES TO THE SEPARATE FINANCIAL STATEMENTS** **For the year ended 31 December 2016**

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

##### **4.9 Revenue recognition**

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

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

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

##### **4.10 Impairment**

###### **i) Financial assets**

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

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

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

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

###### **ii) Non-financial assets**

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

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

## MPICO LIMITED

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

#### 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.

##### 4.11 Investment in subsidiaries

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

##### 4.12 Dividend income

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

##### 4.13 Finance costs and income

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

##### 4.14 Financial liabilities and equity instruments issued by the company

###### *Classification as debt or equity*

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

###### *Equity instruments*

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

###### *Dividends on ordinary shares*

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

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 4 Significant accounting policies (Continued)

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

###### *Financial liabilities*

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

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

###### *Other financial liabilities*

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

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

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

###### *De-recognition of financial liabilities*

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

##### 4.16 Provisions

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

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

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

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 4 Significant accounting policies (Continued)

##### 4.17 Cash and cash equivalents

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

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

##### 4.18 Loans and receivables

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

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

##### 4.19 Share capital

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

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

##### 4.20 Trade and other payables

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

#### 5. Critical accounting judgments and key sources of estimation uncertainty

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

##### 5.1 Critical judgments in applying the company's accounting policies

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

##### Key sources of estimation uncertainty

###### *Valuation of investment properties and capital work in progress*

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

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

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

*Provision for doubtful receivables*

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

**6 Operating segments**

**6.1 Operating Segments**

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

**6.2 Products and services from which reportable segments derive their revenues**

The company has one principal line of business – rental and management of investment property. Information reported to and used by the Managing Director for decision making for the purposes of resource allocation and assessment of segment performance is more specifically focused on each of the company's current 15 (2015: 15) investment properties. Though one of the properties contributed K341 million (2015: K254 million) representing 24 % (2015: 23%) of the total rental revenue in the current year and its value at K1,407 million (2015: K1,254 million), no single investment property contributes close to 75% of the total revenue from external customers.

**6.3 Segmental information**

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

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

**6.4 Information about major customers**

Included in total rentals income are rentals amounting to K618 million (2015: K684 million) in respect of properties rented by the Government of Malawi. At rental value of 44% (2015: 62%), the Government is the single largest tenant with the other rental revenues being evenly spread over several tenants.

	Rental income		Property values		Fair value increase	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Blantyre	285,210	205,256	2,187,293	1,791,975	395,083	124,868
Lilongwe	1,018,606	824,156	8,840,539	7,563,539	1,277,000	758,108
Other markets	<u>103,012</u>	<u>70,267</u>	<u>698,378</u>	<u>610,878</u>	<u>87,500</u>	<u>59,000</u>
Total	<u>1,406,828</u>	<u>1,099,679</u>	<u>11,726,210</u>	<u>9,966,392</u>	<u>1,759,583</u>	<u>941,976</u>

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

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

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 2016 on the basis set out in note 4.4 to the separate financial statements. The fair value adjustment of MK 1.759 billion (2015 MK941.9 million) has been recognised in the increase in fair value of investment properties in profit or loss. The valuations were carried out by an independent registered valuer, Mr. T.G. Msonda BSc (L Admin), MSIM, MRICS, Chartered Valuation Surveyor of T.G. Msonda & Associates, in accordance with the Appraisal and Valuation Standards laid down by the Royal Institution of Chartered Surveyors and the International Valuation Standards and the resultant fair value increase was taken to profit or loss in line with IAS 40 Investments Properties requirement.

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

The following assumptions were used by the valuer:

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



## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 7 Investment properties (Continued)

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

- 7.1 *Development House in Blantyre valued at K1.296 billion, MPICO House valued at K806 million, MPICO House in Mzuzu valued at K679 million and Lingadzi House valued at K1.449 billion.*

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

- 7.1.1 A sum of K1.5 billion - loan;  
7.1.2 An overdraft facility of K300 million.

All of the above facilities were entered into to finance the construction of Mall (The Gateway) which is under MPICO Malls Limited. The company owns 65.8% in this subsidiary (notes 9 and 15). However, due to repayment of the loans as at year end, the company is in the process of removing the encumbrances.

- 7.2 *Centre House Arcade valued at K2.88 billion, Aquarius House valued at K773 million, Chief Kilipula Building valued at K959 million, Ekistics House valued at K566 million, Old Mutual House valued at K1,011 million and Taurus House valued at K457 million.*

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

**MPICO LIMITED**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

**8. Plant and equipment**  
*See accounting policy Note 4.2*

	<u>Fixture &amp; fittings</u>	<u>Generators</u>	<u>Motor vehicles</u>	<u>Furniture &amp; equipment</u>	<u>Total</u>
<b>COST</b>					
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	<u>68,839</u>	<u>44,651</u>	<u>49,800</u>	<u>185,845</u>	<u>349,135</u>
At 1 January 2015	52,425	44,651	37,550	113,024	247,650
Additions	13,485	-	16,100	33,881	63,466
Disposals	-	-	(3,850)	(4,841)	(8,691)
At 31 December 2015	<u>65,910</u>	<u>44,651</u>	<u>49,800</u>	<u>142,064</u>	<u>302,425</u>
<b>ACCUMULATED DEPRECIATION</b>					
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	<u>55,871</u>	<u>31,311</u>	<u>27,043</u>	<u>114,509</u>	<u>228,734</u>
At 1 January 2015	44,173	25,571	12,573	84,430	166,747
Depreciation	7,721	2,970	7,483	16,675	38,849
Disposal	-	-	(3,850)	(4,747)	(8,597)
At 31 December 2015	<u>51,894</u>	<u>28,541</u>	<u>16,206</u>	<u>96,358</u>	<u>192,999</u>
<b>CARRYING AMOUNT</b>					
Carrying amount at 31 December 2016	<u>12,968</u>	<u>13,340</u>	<u>22,757</u>	<u>71,336</u>	<u>120,401</u>
Carrying amount at 31 December 2015	<u>14,015</u>	<u>16,110</u>	<u>33,593</u>	<u>45,709</u>	<u>109,426</u>

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 4.15*

	<u>2016</u> %	<u>2015</u> %	<u>2016</u>	<u>2015</u>
<b>Wholly owned subsidiaries</b>				
New Capital Properties Limited	100.00	100.00	570	570
Capital Developments Limited	100.00	100.00	68,969	68,969
<b>Other subsidiaries</b>				
MPICO Malls Limited	65.80	65.80	4,681,388	4,681,388
Frontline Investments Limited	69.50	69.50	1,870	1,870
Capital Investments Limited	50.75	50.75	<u>1,401</u>	<u>1,401</u>
Total investment in subsidiary companies			<u>4,754,198</u>	<u>4,754,198</u>

The investments in subsidiary companies comprise ordinary shares and are stated at cost. The subsidiaries have no other forms of shares in issue.

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 10 Related parties

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

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

Amounts due (to)/ from related parties	<u>2016</u>	<u>2015</u>
New Capital Properties Limited	13,156	(2,434)
Capital Developments Limited	32,488	(14,586)
Frontline Investments Limited	74,108	53,340
Capital Investments Limited	85,338	50,682
MPICO Malls Limited	<u>660,282</u>	<u>150,941</u>
Net amount due (to) / from subsidiaries	<u>865,372</u>	<u>237,943</u>

The amounts due from subsidiaries are mainly due to management fees receivable, Value Added Tax (VAT) and short-term loans. At year end, management fees have been accrued in all subsidiaries except for MPICO Malls Limited (MML). These amounts were yet to be paid as at reporting date. Due to Group VAT registration, MPICO Limited pays on behalf of all its subsidiaries and recover the same from its subsidiaries. In order for MML to meet its short obligations, the parent company advanced some funds to it hence the outstanding amount of K660 million.

#### Related party loan:

Non-current assets:

MPICO Malls Limited	<u>3,223,555</u>	<u>1,325,261</u>
---------------------	------------------	------------------

The amount above is in respect of intercompany loans advanced to MPICO Malls Limited to finance the construction of the Mall. The loan is unsecured repayable in 7 years. During the reporting period, MPICO Limited advanced a further K1.7 billion to its subsidiary in order for the latter to pay final invoices of the main contractor and carry out fittings for the co-anchor tenant at the Gateway Mall.

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

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

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

**10 Related parties (Continued)**

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

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

	<u>2016</u>	<u>2015</u>
Management fees charged to subsidiaries	179,124	319,890
Interest charged to MPICO Malls Limited	230,449	247,380
<b>Investments in other subsidiaries</b>		
MPICO Malls Limited	4,681,388	4,681,388
Frontline Investments Limited	1,870	1,870
Capital Investments Limited	1,401	1,401
	<u>4,684,659</u>	<u>4,684,659</u>
<b>Transaction with other related parties:</b>		
Secured staff loans	39,497	45,475
<b>Dividend receivable from subsidiaries</b>		
Frontline Investments Limited	10,425	-
MPICO Malls Limited – Preference shares dividend	748,971	350,708
	<u>759,396</u>	<u>350,708</u>
<b>Compensation of key management personnel</b>		
No loans were advanced to employees in key positions during the year (2015 Nil). At 31 December 2016 the total loans balance outstanding from employees in key positions was K33.1 million (2015: K48.5 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:		
Salary and pension	294,137	321,234

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

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

	<u>2016</u>	<u>2015</u>
<b>11. Trade and other receivables</b>		
<i>See accounting policy Note 4.18</i>		
Rental and service charges	192,644	97,320
Prepaid property expenses	27,866	19,203
Valuation and consultancy receivables	12,060	28,822
Accrued interest on rentals	130,211	22,712
Staff receivables	38,404	30,240
Other receivables (surtax)	119,196	25,434
Provision for doubtful receivables	<u>(31,483)</u>	<u>(32,461)</u>
<b>Total receivables</b>	<u><b>488,898</b></u>	<u><b>191,270</b></u>

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 **K362 million** (2015: K291 million). The total interest charged on overdue Government rentals and other tenants amounted to **K207 million** (2015: K89 million) for the year.

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

***Movement in provision for doubtful receivables***

Balance at beginning of the year	32,461	9,732
Amounts recovered during the year	(19,173)	(4,877)
Increase in provision recognized in the profit or loss	<u>18,195</u>	<u>27,606</u>
<b>Balance at end of the year</b>	<u><b>31,483</b></u>	<u><b>32,461</b></u>

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 44% (2015: 62%) 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.

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

*See accounting policy Note 4.17*

Funds at call and on deposit	725,240	469
Bank balances and cash	<u>79,166</u>	<u>20,868</u>
	804,406	21,337
Bank overdraft	<u>(140,720)</u>	<u>(621,123)</u>
<b>Cash and cash equivalents as presented in statements of cash flows</b>	<u><b>663,686</b></u>	<u><b>(599,786)</b></u>

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

	<u>2016</u>	<u>2015</u>
<b>12 Cash and cash equivalents as stated in the statement of financial position (continued)</b>		
<p>The Company has an overdraft facility of <b>K300 million</b> (2015: K300 million) with FDH Bank Limited and <b>K300 million</b> with National Bank of Malawi (2015: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 2016. The National Bank of Malawi facility is secured as per note 7.1 at the rate of 1.5% below National Bank of Malawi base rate.</p> <p>Most bank accounts are maintained with National Bank of Malawi and the deposits attract interest at an average <b>9%</b> per annum (2015; 18%).</p>		
<b>13 Investment properties classified as held for sale</b>		
<i>See accounting policy Note 4.4</i>		
<b>Valuation</b>		
At the beginning of the year	-	274,000
Disposal	<u>-</u>	<u>(274,000)</u>
At the end of the year	<u>-</u>	<u>-</u>
<b>14a Share capital</b>		
<i>See accounting policy Note 4.19</i>		
Authorised:		
<b>3,000,000,000</b> Ordinary shares of 5t each		
2015: 1,200,000,000 Ordinary Shares of 5t each)	<u>150,000</u>	<u>60,000</u>
Issued and fully paid:		
<b>2,298,047,460</b> Ordinary shares of 5t each		
(2015: 1,149,023,730 Ordinary Shares of 5t each)		
In issue at 1 January	57,451	57,451
Ordinary shares issue during the year	<u>57,451</u>	<u>-</u>
Total issued and fully paid share capital	<u>114,902</u>	<u>57,451</u>
<p>During the year the company made a rights offer on the basis of one (1) rights offer shares of every one (1) MPICO share held by shareholders.</p>		
<b>14b Share premium</b>		
Share premium arising from rights issue	8,996,856	-
Ordinary share used	(57,451)	-
Rights issue transaction costs	<u>(312,467)</u>	<u>-</u>
At the end of the year	<u>8,626,938</u>	<u>-</u>
<p>During the year the company made a rights offer at a subscription price of K7.83 per MPICO share on the basis of 1 (one) rights offer shares of every 1 (one) MPICO share held by shareholders. Nominal value of each ordinary being K0.05, the transaction gave rise to a share premium of K8,939 billion which was credited to share premium account less associated transaction costs of K312 million in accordance with IAS 32 and Companies Act ,2013 of Malawi.</p>		

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

**15 Borrowings (continued)**

*See accounting policy Note 4.8*

**2016**

At 1 January 2016

Accrued interest

Additions during the year

Repayments during the year

**Closing balance**

Amounts due after 1 year

Amounts due within 1 year

**Total borrowings**

**2015**

At 1 January 2015

Accrued interest

Repayments during the year

**Closing balance**

Amounts due after 1 year

Amounts due within 1 year

**Total borrowings**

	<b>National Bank of Malawi</b>	<b>Old Mutual (Malawi) Limited</b>	<b>Total</b>
	1,197,915	3,002,577	4,200,492
	-	896,812	896,812
	985,936	-	985,936
	<u>(2,182,370)</u>	<u>(3,335,701)</u>	<u>(5,518,071)</u>
	<u>1,481</u>	<u>563,688</u>	<u>565,169</u>
	-	-	-
	<u>1,481</u>	<u>563,688</u>	<u>565,169</u>
	<u>1,481</u>	<u>563,688</u>	<u>565,169</u>
	1,273,705	2,349,495	3,623,200
	-	753,082	753,082
	<u>(75,790)</u>	<u>(100,000)</u>	<u>(175,790)</u>
	<u>1,197,915</u>	<u>3,002,577</u>	<u>4,200,492</u>
	1,027,020	3,002,577	4,029,597
	<u>170,895</u>	-	<u>170,895</u>
	<u>1,197,915</u>	<u>3,002,577</u>	<u>4,200,492</u>

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 15 Borrowings summary (Continued)

	<u>2016</u>	<u>2015</u>
Balance at 1 January	4,200,492	3,623,200
Additions during the year	985,936	-
Accrued interest	896,812	753,082
Repayments during the year	<u>(5,518,071)</u>	<u>(175,790)</u>
<b>Balance at 31 December</b>	<u><b>565,169</b></u>	<u><b>4,200,492</b></u>
Amounts due after 1 year	-	4,029,597
Amounts due within 1 year	<u>565,169</u>	<u>170,895</u>
Total borrowings	<u><b>565,169</b></u>	<u><b>4,200,492</b></u>

#### 15.1 Company borrowings:

- 15.1.1 K1.5 billion was borrowed from National Bank of Malawi. The amount is subject to interest charges at 1.5% below the bank's base lending rate and is repayable over a period of 10 years with a moratorium of 2 years. The loan was repaid as at reporting date.
- 15.1.2 K986 million was borrowed from National Bank of Malawi during the year. The amount is subject to interest charges at 1.5% below the bank's base lending rate and in turn advanced to MPICO Malls Limited for the latter to pay final invoices of the main contractor and carry out fittings at the Gateway Mall.
- 15.1.3 K1.583 million was borrowed from Old Mutual Malawi (related party). The amount is subject to interest charges at 1% above the National Bank of Malawi base lending rate. The transaction is at arm's length. The facility was entered into to finance the construction of the Gateway Mall (note 9).
- 15.1.4 The balance of K1.4 million is an amount obtained from National Bank of Malawi to finance the purchase of the Managing Director's car. The amount is subject to interest at the bank's base lending rate. This last installment is due for repayment in January 2017.



**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

<b>16</b>	<b>Deferred tax assets / (liabilities)</b> <i>See accounting policy Note 4.5</i>						
	<b>Deferred tax assets/(liabilities)</b>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	
						<b>2015</b>	
	Revaluation on surpluses on investments properties	-	-	(3,435,147)	(2,907,272)	(3,435,147)	(2,907,272)
	Other timing differences	-	-	459,912	302,161	459,912	302,161
	Excess capital allowances	-	-	<u>29,267</u>	<u>31,235</u>	<u>29,267</u>	<u>31,235</u>
	<b>Total</b>	<b>-</b>	<b>-</b>	<b><u>(2,945,968)</u></b>	<b><u>(2,573,876)</u></b>	<b><u>(2,945,968)</u></b>	<b><u>(2,573,876)</u></b>
						<b>Recognized in Profit or loss</b>	<b>Balance at 31 December 2016</b>
	<b><u>Year ended 31 December 2016</u></b>						
	Revaluation of investment properties			(2,907,272)		(527,875)	(3,435,147)
	Other timing differences			302,161		157,751	459,912
	Excess capital allowances			<u>31,235</u>		<u>(1,968)</u>	<u>29,267</u>
	<b>Total</b>			<b><u>(2,573,876)</u></b>		<b><u>(372,092)</u></b>	<b><u>(2,945,968)</u></b>
	<b><u>Year ended 31 December 2015</u></b>						
	Revaluation of investment properties			(2,714,384)		(192,888)	(2,907,272)
	Other timing differences			167,676		134,485	302,161
	Excess capital allowances			<u>(64,565)</u>		<u>95,800</u>	<u>31,235</u>
				<b><u>(2,611,273)</u></b>		<b><u>37,397</u></b>	<b><u>(2,573,876)</u></b>
						<b><u>2016</u></b>	<b><u>2015</u></b>
<b>17.</b>	<b>Trade and other payables</b> <i>See accounting policy Note 4.20</i>						
	Accruals					58,341	167,081
	Prepaid rentals					58,192	80,682
	VAT payables					130,014	32,631
	Property expenses payables					<u>126,107</u>	<u>143,794</u>
						<b><u>372,654</u></b>	<b><u>424,188</u></b>

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.

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

**18 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:

	<u>2016</u>	<u>2015</u>
Fair value adjustment credited to		
Profit or loss	1,759,583	941,976
Related deferred tax	<u>(527,875)</u>	<u>(192,888)</u>
<b>Amount transferred to non-distributable reserves</b>	<b><u>1,231,708</u></b>	<b><u>749,088</u></b>

**19 Operating profit before income tax**

Profit before taxation is arrived at after charging:-

Auditors' remuneration	20,990	13,000
Group internal auditors' remuneration	1,296	16,695
Depreciation of plant and equipment	35,872	34,847
Profit on disposal of non-current assets	90	127,119
Directors' remuneration - fees for services as directors	8,910	7,612
- for managerial services	113,547	58,788
Bad debts	18,195	27,606
Pension costs	58,365	51,388
Staff costs - 25 staff in 2016 (27 in 2015)	<u>633,004</u>	<u>508,474</u>

**20. Income tax expense**

*See accounting policy Note 4.5*

Prior year tax adjustments	-	(34,079)
Deferred tax movement (Note 16)	372,092	(10,040)
Dividend tax	<u>-</u>	<u>81,516</u>
<b>Total taxation charge</b>	<b><u>372,092</u></b>	<b><u>37,397</u></b>

**20a Reconciliation of effect tax rates to standard rates**

Profit before tax income		<u>1,532,302</u>		<u>1,291,143</u>
Income tax based on tax profits	30%	459,691	30 %	387,343
Non-deductible expense	4%	54,611	6 %	78,068
Income not subject to tax	(9%)	(132,372)	11 %	141,888
Other temporary differences	<u>(1%)</u>	<u>(9,838)</u>	<u>(44%)</u>	<u>(569,902)</u>
<b>Effective tax rate</b>	<b><u>24%</u></b>	<b><u>372,092</u></b>	<b><u>3 %</u></b>	<b><u>37,397</u></b>

**20b Income tax recoverable**

	<u>2016</u>	<u>2015</u>
As at 1 January	423,275	185,201
Tax recoverable for the year	539,011	523,395
Paid during the year	<u>(269,503)</u>	<u>(285,321)</u>
<b>As at 31 December</b>	<b><u>692,783</u></b>	<b><u>423,275</u></b>

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

	<u>2016</u>	<u>2015</u>
<b>21 Reconciliation of profit before taxation to net cash inflow from operating activities</b>		
Profit before income tax	1,532,302	1,291,143
Increase in fair value of investment properties	(1,759,583)	(941,976)
Interest receivable	(521,349)	(348,627)
Dividends receivable	(408,689)	(802,820)
Interest payable	1,648,099	1,437,935
Depreciation	35,872	34,847
Changes in trade and other receivables	(297,631)	268,032
Changes in trade and other payables	(51,535)	(131,227)
Profit on disposal of non-current assets	(90)	(127,119)
Movement on group company balances	<u>(627,429)</u>	<u>(816,314)</u>
Net cash outflow from operating activities	<u>(450,033)</u>	<u>(136,126)</u>
<b>22. Other Income</b>		
<i>See accounting policy Note 4.9</i>		
Profit on disposal of non – current assets	90	127,119
Dividends income from subsidiaries	408,689	802,820
Other income	<u>243,911</u>	<u>362,137</u>
	<u>652,690</u>	<u>1,292,076</u>
<b>23. Financial risk management</b>		
<b>Categorization of financial instruments</b>		
The analysis below sets out the company’s classification of financial assets and liabilities and their fair values including accrued interest.		
<b>Financial assets</b>		
Trade and other receivables	488,899	191,270
Dividend amounts from subsidiaries	865,372	237,943
Funds at call and on deposit	725,240	469
Bank balance and cash	<u>79,166</u>	<u>20,868</u>
Total financial assets	<u>2,158,677</u>	<u>450,550</u>
<b>Financial liabilities</b>		
Borrowings	565,169	4,200,492
Trade and other payables	372,655	424,194
Bank overdraft	<u>140,720</u>	<u>621,123</u>
	<u>1,078,544</u>	<u>5,245,809</u>

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 23 Financial 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 certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations does not arise. 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.

**MPICO LIMITED**

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

**For the year ended 31 December 2016**

*In thousands of Malawi Kwacha*

**23 Financial risk management (Continued)**

**(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 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.

	<u>Note</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>Over 12 months</u>	<u>Total</u>
<b>2016</b>					
<b>Liabilities</b>					
Trade and other payables	17	372,655	-	-	372,655
Borrowings	15	565,169	-	-	563,169
Bank overdraft	12	<u>140,720</u>	-	-	<u>140,720</u>
<b>Total</b>		<b><u>1,078,544</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,078,544</u></b>
<b>2015</b>					
<b>Liabilities</b>					
Trade and other payables	17	424,194	-	-	424,194
Borrowings	15	113,764	57,131	4,029,597	4,200,492
Bank overdraft	12	<u>121,123</u>	<u>500,000</u>	-	<u>621,123</u>
<b>Total</b>		<b><u>659,081</u></b>	<b><u>557,131</u></b>	<b><u>4,029,597</u></b>	<b><u>5,245,809</u></b>

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 23 Financial risk management (Continued)

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

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

## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 23 Financial risk management (Continued)

##### (e) Accounting classifications and fair values of financial instruments

##### (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 statements of financial position.

<b>31 December 2016</b>				
<b>Assets</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Investments properties	-	-	<b>11,726,210</b>	<b>11,726,210</b>
<b>Total</b>	-	-	<b>11,726,210</b>	<b>11,726,210</b>
<b>31 December 2015</b>				
<b>Assets</b>				
Investments properties	-	-	<b>9,966,329</b>	<b>9,966,329</b>
<b>Total</b>	-	-	<b>9,966,329</b>	<b>9,966,329</b>

##### (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.

**MPICO LIMITED**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

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

**23 Financial risk management (Continued)**

**f) Categories of financial instruments**

	<u>Loans and receivables</u>	<u>Other amortised cost</u>	<u>Total carrying amount</u>	<u>Fair value</u>
<b>31 December 2016</b>				
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	<u>488,899</u>	<u>-</u>	<u>488,899</u>	<u>488,899</u>
<b>Total</b>	<b><u>2,092,198</u></b>	<b><u>-</u></b>	<b><u>2,092,198</u></b>	<b><u>2,092,198</u></b>
<b><u>Trading liabilities</u></b>				
Borrowings	-	565,169	565,169	565,169
Bank overdraft	<u>140,720</u>	<u>-</u>	<u>140,720</u>	<u>140,720</u>
<b>Total</b>	<b><u>140,720</u></b>	<b><u>565,169</u></b>	<b><u>705,889</u></b>	<b><u>705,889</u></b>
<b>31 December 2015</b>				
Cash and cash equivalents	21,337	-	21,337	21,337
Secured staff loan	45,475	-	45,475	45,475
Dividend receivable from subsidiaries	350,708	-	350,708	350,708
Trade and other receivables	<u>191,270</u>	<u>-</u>	<u>191,270</u>	<u>191,270</u>
<b>Total</b>	<b>608,790</b>	<b><u>-</u></b>	<b>608,790</b>	<b>608,790</b>
<b><u>Trading liabilities</u></b>				
Borrowings	-	4,200,492	4,200,492	4,200,492
Bank overdraft	621,123	-	621,123	621,123
<b>Total</b>	<b><u>621,123</u></b>	<b><u>4,200,492</u></b>	<b><u>4,821,615</u></b>	<b><u>4,821,615</u></b>

**24 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 **K1.4 billion** (2015: K1.1 billion).



## MPICO LIMITED

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

#### 25 Contingent liabilities

There are a number of proceedings outstanding against the company as at 31 December 2016. If defence against these actions is unsuccessful, the claims and litigation costs could amount to **MK20 million** (2015: MK54 million).

	<u>2016</u>	<u>2015</u>
26 Capital commitments		
Authorised	<u>362,040</u>	<u>214,000</u>

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

#### 27 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.

Kwacha/ US	725.4	664.5
Kwacha/Rand	50.4	41.9
Kwacha/ GBP	878.2	973.9
Kwacha/Euro	764.0	717.8
Inflation (%)	<u>19.9%</u>	<u>24.9%</u>

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

Malawi Kwacha/ US	725.4	686.4
Malawi Kwacha/Rand	53.3	44.7
Malawi Kwacha/ GBP	891.8	968.9
Malawi Kwacha/Euro	760.5	767.4
Inflation (%)	<u>20%</u>	<u>23.5%</u>

#### 28 Subsequent events

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