



**Makandi Tea & Coffee
Estates Limited**

**Financial statements for the year
ended 31 December 2019**



Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

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The principal activities of Makandi Tea & Coffee Estates Limited (the Company) are the growing, processing and sale of tea and macadamia. The Company is a wholly owned subsidiary of Dhunseri Petrochem & Tea Pte Limited incorporated in Singapore.

DIRECTORS

The particulars of the directors who served office during the year are as follows:

| | | |
|--------------|----------|-----------------------------------|
| C.K. Dhanuka | Chairman | Full year |
| M. Dhanuka | Director | Full year |
| R. Sharma | Director | Full year |
| M. Beriwalla | Director | Full year |
| S. Hara | Director | Full year |
| S. Nain | Director | Full year |
| S. Latif, SC | Director | Full year |
| B. Bajoria | Director | From 13 th August 2019 |

COMPANY SECRETARY

S. Hara

REGISTERED OFFICE

Tunga Estate
P O Box 5598
Limbe
Company registration number 2868.

AUDITOR

Ernst & Young Chartered Accountants (Malawi)
Kidney Crescent
P O Box 530
Blantyre

LEGAL ADVISOR

Sacranie, Gow & Company
Realty House, Churchill Road
P. O. Box 5133 Limbe

BANKERS

National Bank of Malawi
Standard Bank Limited

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Statement of directors' responsibilities

The Companies Act, 2013 requires directors to prepare financial statements for each financial year which give a true and fair view of the affairs of the company as at the end of the financial period and of the operating results for that period. The directors are responsible for preparing the financial statements in accordance with the International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2013

The Act requires 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 to enable them to ensure that the financial statements comply with the Companies Act.

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

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

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

The directors confirm that they have complied with the Companies (Corporate Governance) Regulations 2016 with respect to corporate governance.

The directors are of the opinion that the financial statements give a fair view of the state of the financial affairs of the company and of its operating results.

Director: 

Director: 

13 May 2020

Independent auditor's report to the shareholders of Makandi Tea and Coffee Estates Limited

Opinion

We have audited the consolidated and separate financial statements of Makandi Tea and Coffee Estates Limited set out on pages 5 to 52 which comprise the consolidated and separate statements of financial position as at 31 December 2019 and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 December 2019, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 2013.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and separate financial Statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information consists of the statement of directors' responsibilities. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and separate financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated and separate financial Statements

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

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

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

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

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



Chartered Accountants (Malawi)
Chiwemi C Chihana - Partner
Registered Practicing Accountant

15 May 2020

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Consolidated and separate statements of financial position as at 31 December 2019

| | | CONSOLIDATED | | COMPANY | |
|-------------------------------------|------|-------------------|---------------------------|-------------------|---------------------------|
| | Note | 2019 K'000 | Restated 2018 K'000 | 2019 K'000 | Restated 2018 K'000 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 5 | 26,366,185 | 24,875,336 | 23,804,563 | 23,401,995 |
| Investments in subsidiaries | 6 | - | - | 1,984,595 | 1,064,431 |
| | | 26,366,185 | 24,875,336 | 25,789,158 | 24,466,426 |
| Current assets | | | | | |
| Biological assets | 7 | 1,382,028 | 1,424,664 | 1,382,028 | 1,424,664 |
| Future crop expenditure | 8 | 81,547 | 37,861 | 81,547 | 37,861 |
| Inventories | 9 | 1,814,062 | 1,466,712 | 1,814,062 | 1,466,712 |
| Trade and other receivables | 10 | 459,187 | 836,393 | 457,820 | 836,393 |
| Amounts due from related parties | 11 | - | 364,797 | - | 364,797 |
| Current income tax asset | 23 | 8,853 | 9,844 | 55 | - |
| Cash and cash equivalents | 12 | 25,044 | 73,414 | 15,978 | 62,527 |
| | | 3,770,721 | 4,213,685 | 3,751,490 | 4 192 954 |
| TOTAL ASSETS | | 30,136,906 | 29,089,021 | 29,540,648 | 28,659,380 |
| EQUITY AND LIABILITIES | | | | | |
| EQUITY | | | | | |
| Share capital | 13 | 13,862 | 13,862 | 13,862 | 13,862 |
| Share premium | | 120,935 | 120,935 | 120,935 | 120,935 |
| Revaluation reserve | | 14,470,611 | 14,335,035 | 14,245,029 | 14,196,041 |
| Retained earnings | | 3,755,358 | 4,186,494 | 3,409,890 | 3,889,259 |
| Total equity | | 18,360,766 | 18,656,326 | 17,789,716 | 18,220,097 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Deferred income tax liabilities | 14 | 6,949,468 | 6,959,313 | 6,916,095 | 6,959,313 |
| Deferred acquisition consideration | 25 | 368,999 | 134,101 | 368,999 | 134,101 |
| Long term borrowings | 17 | 1,468,063 | 483,535 | 1,468,063 | 483,535 |
| | | 8,786,530 | 7,576,949 | 8,753,157 | 7 576 949 |
| Current liabilities | | | | | |
| Trade and other payables | 16 | 853,846 | 990,227 | 850,791 | 980,410 |
| Deferred acquisition consideration | 24 | 73,832 | 33,318 | 73,832 | 33,318 |
| Amounts due to related parties | 11 | 276,689 | - | 287,909 | 5,517 |
| Current income tax liabilities | 23 | - | 322,735 | - | 333,623 |
| Borrowings | 17 | 1,718,355 | 1,481,639 | 1,718,355 | 1,481,639 |
| Employee benefits liabilities | 15 | 66,888 | 27,827 | 66,888 | 27,827 |
| Total current liabilities | | 2,989,610 | 2,855,746 | 2,997,775 | 2,862,334 |
| Total liabilities | | 11,776,140 | 10,432,695 | 11,750,932 | 10,439,283 |
| Total equity and liabilities | | 30,136,906 | 29,089,021 | 29,540,648 | 28,659,380 |

These financial statements were authorised for issue by the Board of directors on **13 May 2020** and were signed on its behalf by:

 Director

 Director

The notes on pages 10 to 52 form part of these financial statements. Auditors' report is on page 3 to 4

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Consolidated and separate statements of profit and loss and other comprehensive income for the year ended 31 December 2019

| | Note | CONSOLIDATED | | COMPANY | |
|--|------|------------------|---------------------------|------------------|---------------------------|
| | | 2019 K'000 | Restated 2018 K'000 | 2019 K'000 | Restated 2018 K'000 |
| Revenue | 18 | 6,766,740 | 8,521,524 | 6,766,740 | 8,521,524 |
| Cost of sales | 19 | (5,384,197) | (5,389,663) | (5,384,197) | (5,389,663) |
| Gross profit | | 1,382,543 | 3,131,861 | 1,382,543 | 3,131,861 |
| Distribution costs | 20 | (354,920) | (328,954) | (354,920) | (328,954) |
| Administrative expenses | 22 | (1,605,836) | (1,581,943) | (1,581,658) | (1,582,443) |
| Other income | 21 | 61,888 | 178,721 | 59,226 | 184,738 |
| Other costs | | (115,217) | (187,991) | (115,217) | (187,991) |
| Fair value (loss)/gain on biological assets | 7 | (42,636) | 442,459 | (42,636) | 442,459 |
| Negative goodwill on purchase of subsidiary | | 58,802 | - | - | - |
| Operating (loss)/profit | | (615,376) | 1,654,153 | (652,662) | 1,659,670 |
| Finance costs | 22 | (222,752) | (126,098) | (222,752) | (126,098) |
| (Loss)/profit before income tax | | (838,128) | 1,528,055 | (875,414) | 1,533,572 |
| Income tax expense | 24 | 269,075 | (543,955) | 263,909 | (542,912) |
| (Loss)/profit for the year | | (569,053) | 984,100 | (611,505) | 990,660 |
| Other comprehensive income | | | | | |
| Revaluation gain/(loss) on property, plant and equipment | | 867,596 | (378,940) | 867,596 | (378,940) |
| Deferred income tax on revaluation loss | | (260,279) | 113,682 | (260,279) | 113,682 |
| | | 607,317 | (265,258) | 607,317 | (265,258) |
| Total comprehensive income/(loss) for the year | | 38,264 | 718,842 | (4,188) | 725,402 |

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Statement of changes in equity for the year ended 31 December 2019

Consolidated

| | Share capital K'000 | Share premium K'000 | Revaluation reserve K'000 | Retained earnings K'000 | Total K'000 |
|---|---------------------------|---------------------------|---------------------------------|-------------------------------|-------------------|
| At 1 January 2018 | 13,862 | 120,935 | 15,083,915 | 3,042,214 | 18,260,926 |
| Profit for the year | - | - | - | 984,100 | 984,100 |
| Revaluation loss on property, plant and equipment | - | - | (265,258) | - | (378,940) |
| Transfer of excess depreciation revaluation | - | - | (483,622) | 483,622 | - |
| Dividend paid | - | - | - | (323,442) | (323,442) |
| At 31 December 2018 | 13,862 | 120,935 | 14,335,035 | 4,186,494 | 18,656,326 |
| At 1 January 2019 | 13,862 | 120,935 | 14,335,035 | 4,186,494 | 18,656,326 |
| Loss for the year | - | - | - | (569,053) | (569,053) |
| Revaluation gain on property, plant and equipment | - | - | 607,317 | - | 607,317 |
| Transfer of excess depreciation on revaluation | - | - | (471,741) | 471,741 | - |
| Dividend paid | - | - | - | (333,824) | (333,824) |
| At 31 December 2019 | 13,862 | 120,935 | 14,470,611 | 3,755,358 | 18,360,766 |

Company

| | Share capital K'000 | Share premium K'000 | Revaluation reserve K'000 | Retained earnings K'000 | Total K'000 |
|---|---------------------------|---------------------------|---------------------------------|-------------------------------|-------------------|
| At 1 January 2018 | 13,862 | 120,935 | 14,944,704 | 2,738,636 | 17,818,137 |
| Profit for the year | - | - | - | 990,660 | 990,660 |
| Revaluation loss on property, plant and equipment | - | - | (265,258) | - | (378,940) |
| Transfer of excess depreciation revaluation | - | - | (483,405) | 483,405 | - |
| Dividend paid | - | - | - | (323,442) | (323,442) |
| At 31 December 2018 | 13,862 | 120,935 | 14,196,041 | 3,889,259 | 18,220,097 |
| At 1 January 2019 | 13,862 | 120,935 | 14,196,041 | 3,889,259 | 18,220,097 |
| Loss for the year | - | - | - | (611,505) | (611,505) |
| Revaluation gain on property, plant and equipment | - | - | 514,948 | - | 735,640 |
| Transfer of excess depreciation on revaluation | - | - | (465,960) | 465,960 | - |
| Dividend paid | - | - | - | (333,824) | (333,824) |
| At 31 December 2019 | 13,862 | 120,935 | 14,245,029 | 3,409,890 | 17,789,716 |

Note: Retained earnings include fair value gains on biological assets of K758 million (2018: K788 million) net of tax

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Consolidated and separate statement of cash flows for the year ended 31 December 2019

| | Note | 2019 K'000 | Restated 2018 K'000 | 2019 K'000 | Restated 2018 K'000 |
|---|------|--------------------|---------------------------|--------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Loss before income tax | | (838,128) | 1,528,055 | (875,414) | 1,533,572 |
| Adjustments for: | | | | | |
| - Fair value loss/(gains) on biological assets | 7 | 42,636 | (442,459) | 42,636 | (442,459) |
| - Depreciation | 5 | 1,377,553 | 1,392,398 | 1,355,441 | 1,380,362 |
| - Interest payable | 22 | 222,752 | 126,098 | 222,752 | 126,098 |
| - Loss on disposal of property, plant and equipment | | 151,166 | - | 151,166 | - |
| - Negative goodwill on purchase of subsidiary | | (58,802) | - | - | - |
| - Unrealised exchange gain | | - | (3,889) | - | (651) |
| - Unrealised exchange losses | | 11,143 | 957 | 2,125 | 957 |
| Cash generated from operating activities before changes in working capital | | 908,320 | 2,601,160 | 898,706 | 2,597,879 |
| (Increase)/decrease in future crop expenditure | | (43,686) | 22,838 | (43,686) | 22,838 |
| Increase in inventories | | (347,350) | (4,222) | (347,350) | (4,222) |
| Decrease/(increase) in trade and other receivables | | 376,968 | (294,148) | 378,573 | (294,148) |
| Decrease/(increase) in amounts due from related parties | | 365,035 | (202,918) | 364,797 | (203,156) |
| (Decrease)/increase in trade and other payables | | (136,116) | 256,500 | (131,747) | 248,283 |
| Increase/(decrease) in amounts due to related parties | | 276,689 | (31,714) | 282,392 | (38,214) |
| Increase in deferred purchase consideration | | 275,413 | - | 275,413 | - |
| Increase in employee benefit liabilities | | 39,061 | 15,460 | 39,061 | 15,460 |
| Cash generated from operations | | 1,714,334 | 2,362,718 | 1,716,159 | 2,344,720 |
| Interest paid | 22 | (222,752) | (126,098) | (222,752) | (126,098) |
| Taxation paid | 23 | (333,678) | (232,000) | (333,678) | (232,000) |
| Net cash flows generated from operating activities | | 1,157,904 | 2,004,620 | 1,159,729 | 1,986,622 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of investment in subsidiary | 6 | (920,160) | (37,236) | (920,160) | (37,236) |
| Purchase of property, plant and equipment | 5 | (1,215,022) | (1,806,060) | (1,215,022) | (1,787,522) |
| Proceeds from disposal of property, plant and equipment | | 41,487 | - | 41,487 | - |
| Net cash flows from investing activities | | (2,093,695) | (1,843,296) | (2,093,695) | (1,824,758) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from long term borrowings | | 1,104,990 | - | 1,104,990 | - |
| Repayment of long term borrowings | | (45,090) | (59,655) | (45,090) | (59,655) |
| Dividend paid | | (333,824) | (323,442) | (333,824) | (323,442) |
| Net cash flows generated from financing activities | | 726,076 | (383,097) | 726,076 | (383,097) |
| Net Increase/(decrease) in cash and cash equivalents | | (209,715) | (221,773) | (207,894) | (221,233) |
| Cash and cash equivalents at beginning of the year | | (1,225,765) | (1,003,992) | (1,236,652) | (1,015,419) |
| Cash and cash equivalents at end of the year | 11 | (1,435,480) | (1,225,765) | (1,444,546) | (1,236,652) |

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Notes to the consolidated and separate financial statements

1 Corporate Information

Makandi Tea and Coffee Estates Limited (The company) is a private Company incorporated in Malawi. The company registration number is 2868. It is a subsidiary of Dhunseri Petrochem and Tea Pte Limited which is 100% ultimately owned by Dhunseri Tea & Industries Ltd.

The major activities of the group are growing(plantation), manufacture and selling of tea and macadamia.

The Company owns 100% of the shareholding of AM Henderson & Sons Limited, Ntimabi Estate Limited and Chiwale Estate Management Services Limited. The main business of A.M. Henderson & Sons Limited and Ntimabi Estate Limited is that they both land at Chiwale and Ntimabi estates respectively, which is sub-leased on a long term to Makandi Tea and Coffee Limited. The main income for both subsidiaries is rental from the sub-lease of the land. Chiwale Estate Management Services Limited is a dormant company.

The consolidated and separate financial statements for the year ended 31 December 2019 comprises the company and its subsidiaries AM Henderson & Sons Limited, Ntimabi Estate Limited and Chiwale Estate Management Services Limited (together referred to as "the Group").

2 Significant accounting policies

2.1 Preparation

The consolidated and separate financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in a manner required by the Companies Act, 2013.

The financial statements have been prepared on a historical cost basis except for biological assets, and property plant and equipment and financial instruments that are measured at fair value. The financial statements are presented in Malawi Kwacha which is the company's functional and group's presentation currency.

2.2 Basis of consolidation

The separate financial statements reflect the interest in the two entities controlled by the company at cost less any impairment. The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the Company and all entities controlled by the company as if they were a single business entity. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Notes to the consolidated and separate financial statements

2.2 Basis of consolidation (continued)

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.3 Use of estimates and judgements

The preparation of the consolidated and separate financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in Note 3.

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 *Leases* and IFRIC 23 *uncertainty over income tax treatment* for the first time. The nature and effect of the changes as a result of adoption of the new accounting standards is described below.

The standard was applied for the first time in 2019, but do not have an impact on the consolidated and separate financial statements of the Group since the only item that falls under the standard is land sub-lease contracts which are considered insignificant. The Group has not taken an early adoption of standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Notes to the consolidated and separate financial statements

2.4 Changes in accounting policies and disclosures (continued)

IFRS 16 Leases (continued)

The Group has lease contracts for land which is owned by its subsidiaries. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to note on Leases for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to note on Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

- Leases previously accounted for as operating leases
The Group recognizes right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group's include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated and separate financial statements.

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2.4 Changes in accounting policies and disclosures (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

• IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Group as there is no transaction where joint control is obtained.

• IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Group as there is no transaction where a joint control is obtained.

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2.4 Changes in accounting policies and disclosures (continued)

Annual Improvements 2015-2017 Cycle (continued)

- *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the financial statements of the Group.

- *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Group.

Standards and Interpretations in issue, not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
 - A simplified approach (the premium allocation approach) mainly for short-duration contracts.
- IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

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2.4 Changes in accounting policies and disclosures (continued)

Standards and Interpretations in issue, not yet effective

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. This standard is not applicable to the Company

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

2.5 Summary of significant accounting policies

2.5.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss as a bargain purchase gain.

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2.5 Summary of significant accounting policies (continued)

2.5.1 Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained. An impairment loss recognized for goodwill is not reversed in a subsequent period.

2.5.2 Foreign currency translation

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Malawi Kwacha ('K'), which is the Company's functional and Group's presentation currency.

The group's financial statements are presented in Malawi Kwacha. Transactions in foreign currencies are initially recorded by the Group in Malawi Kwacha using spot rates at the date the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.5.3 Property, plant and equipment

Property, plant and equipment comprise mainly bearer plants, factories, retail outlets and offices. Certain property, plant and equipment is shown at fair value, based on valuation by external independent valuers, less subsequent depreciation. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A revaluation surplus is recorded in OCI and credited to the revaluation reserve in equity. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit and loss during the financial period in which they are incurred.

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Notes to the consolidated and separate financial statements

2.5 Summary of significant accounting policies (continued)

2.5.3 Property, plant and equipment (continued)

Land and capital work in progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | | |
|-------------------------|-------------|----------------|
| Bearer plants | -Tea bushes | 65 Years |
| | -Macadamia | 35 Years |
| Building | | 10 to 25 years |
| Plant & Machinery | | 3 to 10 years |
| Motor vehicles | | 2 to 10 years |
| Furniture and equipment | | 3 to 10 years |

Tea bushes, macadamia trees and timber stumps meet the definition of bearer plants and are accounted for as property, plant and equipment. Mature bearer plants are measured at fair value less accumulated depreciation. The fair value of timber, tea and macadamia is determined based on the present value of expected net cash flows from the bearer plants discounted at a current market determined pre-tax rate adjusted for a long-term view. Immature bearer plants including timber, tea bushes and macadamia trees are measured at accumulated cost until they start to be commercially harvested.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate. Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is de-recognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of profit or loss when the asset is de-recognised.

2.5.4 Biological assets

Biological assets comprise of growing timber, macadamia nuts on macadamia trees, and growing tea on tea bushes. The expected harvest of growing timber, growing tea and macadamia nuts is measured at their fair value less relevant costs including costs to sell. Costs to sell include the incremental selling costs, including auctioneer' fees, commission paid to brokers and dealers and established costs of transport to the market but excludes finance costs and income taxes. Other relevant costs include harvesting costs and costs of maintaining fields.

The fresh fruit/produce growing on the bushes or trees to be harvested within a year is accounted for as biological assets. Timber that has been grown for 6 years is regarded as biological assets as it can be sold or used commercially.

Fair value movements include increased yields as plants and trees mature, price movements reduced with expected cost increases.

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2.5 Summary of significant accounting policies (continued)

2.5.5 Future crop expenditure

The Group's financial year and the crop seasons are not concurrent for macadamia. Accordingly, expenditure incurred prior to the reporting date in respect of crops which will be harvested in the subsequent financial year is carried forward at cost to be charged against the corresponding revenue.

2.5.6 Impairment of non – financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Group. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

2.5.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

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2.5 Summary of significant accounting policies (continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.5.8.1 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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2.5 Summary of significant accounting policies (Continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement (continued)

2.5.8.1 Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and loan to an associate and loan to a director included under other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by- instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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2.5 Summary of significant accounting policies (Continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement (continued)

2.5.8.1 Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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2.5 Summary of significant accounting policies (Continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement (continued)

2.5.8.1 Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.5.8.2 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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2.5 Summary of significant accounting policies (Continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement (continued)

2.5.8.3 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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Notes to the consolidated and separate financial statements

2.5 Summary of significant accounting policies (Continued)

2.5.8 Financial instruments– initial recognition and subsequent measurement (continued)

2.5.8.4 Off-setting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.5.9 Inventories

Inventories, including stores and stocks of processed produce, are valued at the lower of cost and estimated net realisable value determined using the weighted average cost calculation method. In the case of processed produce, cost includes appropriate elements of direct processed costs and overheads. Expenditure on plant nurseries, less proceeds from nursery sales to third parties, is included under inventory until such time as the plants are transferred out to the fields, at which point related costs are transferred to bearer plants under property, plant and equipment.

2.5.10 Cash and short-term deposits

Cash and short-term deposits in the consolidated and separated statements of financial position comprise cash at banks and on hand and short – term deposits with maturity period of three months or less which are subject to insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short – term deposits as defined above, net of outstanding bank overdrafts.

2.5.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.5.12 Provisions

General

Provisions are recognised when the Group and Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group and Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.5.13 Leases

The Group and Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Group and Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and Company recognises lease liabilities to make lease payments.

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2.5 Summary of significant accounting policies (Continued)

2.5.13 Leases (continued)

Short-term leases and leases of low-value assets

The Group and Company applies the short-term lease recognition exemption to its short-term leases of buildings (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

2.5.14 Revenue from contracts with customers

The group is in the business of growing and selling tea and macadamia. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3

Revenue from sale of tea and macadamia is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery or collection of the tea and macadamia. Delivery occurs when the products are shipped to their specified locations and the buyer has acknowledged receipt. The normal credit term is 30 days upon delivery or collection.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets) Financial instruments – initial recognition and subsequent measurement.

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2.5 Summary of significant accounting policies (Continued)

2.5.15 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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2.5 Summary of significant accounting policies (Continued)

2.5.15 Taxes (continued)

Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered

Value added tax

Revenue, expenses and assets are recognised net of the amount of value added tax except;

- When the value added tax incurred on a purchase of assets or services is not recoverable in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from or payable to Malawi Revenue Authority is included as part of receivables or payables in the statement of financial position.

2.16 Employee benefits

(a) Short term employee benefits

Short-term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical aid contributions.

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(b) Pension plan

The Group contributes to a pension fund administered by a third party. The scheme is a defined contribution pension plan and is funded through payments to a trustee-administered fund. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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2.5 Summary of significant accounting policies (Continued)

2.16 Employee benefits

(c) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(e) Gratuity

The Group pays gratuity to employees at the end of the contracts which is a maximum of a period of five years. A liability is recognised for the amount expected to be paid at the end of each year that an employee has been in employment of the Group.

2.17 Dividend distribution

Dividends are recorded in the Group's financial statements in the period in which they are declared.

Dividend distribution to the Group's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Group's shareholders.

2.18 Fair value measurement

The Group measures financial instruments, and non-financial assets, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

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2.5 Summary of significant accounting policies (Continued)

2.18 Fair value measurement (continued)

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value Measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.19 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.20 comparative information

Comparative information for 2018 has been restated as follows:

Statement of financial position

- a) The revaluation reserve for bearer assets has been disclosed together with revaluation reserve for other items of property, plant and equipment.
- b) The fair value gains on biological assets have been disclosed as part of retained earnings.

Income statement

- a) Exchange differences have been disclosed separately.
- b) Income tax charge related to fair value gains on biological assets previously affected through equity has been included in tax charge for the year.

Statement of cash flows

- a) the consolidated bank position has been restated.

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3 Significant accounting judgement, estimates and assumptions

The Group makes estimates and assumptions concerning the future. The estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Accounting estimates and judgements that are critical affect the valuation of biological assets. Because there is no active market for these biological assets, the fair values of existing at each reporting date. The Group uses discounted cash flow analysis to establish the fair value of these biological assets.

3.1 Bearer plants and biological assets

Bearer Plants

The fair value of bearer plants is determined based on the present value of expected net cash flows from the bearer plants discounted at a current market-determined pre-tax rate adjusted for a long term view. Fair value movements include increased yields as plants and trees mature, and price movements reduced with expected cost increases.

The average net selling price was projected based on the estimated price of tea in the market and an average of actual transaction over a period of five years. The average estimated cost considers field, factory and selling costs.

For the purpose of the discounted cash flow analysis, the lives of tea bushes are estimated at 65 years and those of macadamia trees at 35 years.

A discount factor of 8.5% has been used which considers time value for money and estimated country risk. Bearer plants are disclosed as part of property, plant and equipment in note 5

Biological assets

Growing tea and macadamia nuts on the trees, and growing timber are valued at the estimated harvest valued at estimated selling price for the following season, less the estimated costs for harvesting, transport and selling. The estimated harvest requires management to assess the expected yields for the following season considering weather conditions. In reviewing the estimated selling price management assesses the markets for the forthcoming crop as well as the related foreign currency exchange rates. The carrying value of biological assets is disclosed in note 7.

The following table illustrates the sensitivity to a percentage variation in each of the significant unobservable inputs used to measure the fair value of the biological assets on 31 December 2017

| | Consolidated Impacts in the fair value resulting from 5% Increase | Company Impacts in the fair value resulting from 5% decrease |
|-----------------------------|--|---|
| Significant variable inputs | K'000 | K'000 |
| Average yield - 5% | 39,780 | (39,780) |
| Average sales price - 5% | 114,979 | (114,979) |
| Discounting rate - 1% | (63,221) | 63,221 |

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3 Significant accounting judgement, estimates and assumptions (continued)

3.2 Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated residual values, useful lives and related depreciation charges for property, plant and equipment. The estimates are based on expected useful economic lives of property, plant and equipment. They could change will increase the depreciation charge where useful lives are less than previously estimated lives, and will write down technically obsolete on non-strategic assets that have been abandoned or sold. The carrying value of property, plant and equipment is disclosed in note 5 to the consolidated and separate financial statements.

3.3 Income taxes

The Group is subject to income tax in Malawi, and provision for income tax payable is made in the financial statements at yearend. Subsequent to the year end a tax return is filed with the revenue authorities. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially provided, such differences are accounted for as an income tax under/over provision in the income statement for the period when such determination is made.

4 Financial risk management

Financial risk factors

The Group is exposed to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The significant risks that the Group is exposed to are discussed below:

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities to the extent that these are exposed to general and specific market movements.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates.

The Group trades internationally and is exposed to foreign exchange risk arising from various currency exposures, with respect to the United States Dollar ("US\$"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group has set up a policy to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group makes prompt payment of all foreign currency denominated transactions once forex is available.

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Notes to the consolidated and separate financial statements

4 Financial risk management (continued)

| Consolidated | USD Amount | K 000 Equivalent |
|--|--------------------|---------------------|
| At 31 December 2019 | | |
| Financial assets | | |
| Trade and other receivables (excluding prepayments) | 623,336 | 459,187 |
| Cash and cash equivalents | 33,997 | 25,044 |
| | <u>693,441</u> | <u>484,231</u> |
| Financial liabilities | | |
| Trade and other payables (excluding statutory liabilities) | 1,159,437 | 854,111 |
| Amounts due to related parties | 375,599 | 276,689 |
| Borrowings | 2,332,630 | 1,718,355 |
| | <u>2,207,169</u> | <u>2,849,155</u> |
| Net on financial position | <u>(1,513,728)</u> | <u>(2,364,924)</u> |
| At 31 December 2018 | | |
| Financial assets | | |
| Trade and other receivables (excluding prepayments) | 598,920 | 437,116 |
| Amounts due from related parties | 305,751 | 223,149 |
| Cash and cash equivalents | 45,456 | 33,176 |
| | <u>950,127</u> | <u>693,441</u> |
| Financial liabilities | | |
| Trade and other payables (excluding statutory liabilities) | 876,217 | 639,498 |
| Amounts due to related parties | 59,899 | 43,717 |
| Borrowings | 2,088,066 | 1,523,954 |
| | <u>3,024,182</u> | <u>2,207,169</u> |
| Net on financial position | <u>(2,074,055)</u> | <u>(1,513,728)</u> |

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4 Financial risk management (continued)

| Company | USD Amount | K 000 Equivalent |
|--|--------------------|---------------------|
| At 31 December 2019 | | |
| Financial assets | | |
| Trade and other receivables (excluding prepayments) | 621,481 | 457,820 |
| Amounts due from related parties | - | - |
| Cash and cash equivalents | 21,690 | 15,978 |
| | <u>643,171</u> | <u>473,798</u> |
| Financial liabilities | | |
| Trade and other payables (excluding statutory liabilities) | 1,154,929 | 850,790 |
| Amounts due to related parties | 390,830 | 287,909 |
| Borrowings | 2,332,630 | 1,718,355 |
| | <u>3,878,389</u> | <u>2,857,054</u> |
| Net on financial position | <u>(3,235,218)</u> | <u>(2,383,256)</u> |
| At 31 December 2018 | | |
| Financial assets | | |
| Trade and other receivables (excluding prepayments) | 477,232 | 317,097 |
| Amounts due from related parties | 243,629 | 161,879 |
| Cash and cash equivalents | 36,231 | 24,074 |
| | <u>757,092</u> | <u>503,050</u> |
| Financial liabilities | | |
| Trade and other payables (excluding statutory liabilities) | 698,188 | 463,911 |
| Amounts due to related parties | 47,730 | 31,714 |
| Borrowings | 1,663,815 | 1,105,522 |
| | <u>2,409,733</u> | <u>1,601,147</u> |
| Net on financial position | <u>(1,652,641)</u> | <u>(1,098,097)</u> |

At 31 December 2019, if currency had weakened or strengthened by 5% against the foreign currencies with all other variables held constant, the effect on post-tax (loss)/profit for the year would be K119.162 million (2018: K114.865 million)

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4 Financial risk management (continued)

4.2.2 Price risk

Price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to commodity price risk because tea prices are determined by the international market. To manage the price risk arising from sales the Group also monitors the exchange rate movement on the local auction sales. The Group had no forward contracts which tied it to fixed tea prices

4.2.3 Cash flow and fair value interest rate risk

Cash flow and fair value interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable interest rates expose the Group to cashflow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest bearing position.

Interest rate risk sensitivity analysis

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement and equity. The simulations are done monthly given the current loan facilities, to verify that the maximum loss potential is within the limit set by management.

| | <u>Consolidated</u> | | <u>Company</u> | |
|-----------------------------|--|--|--|--|
| | Effect on profit before income tax | Effect on profit before income tax | Effect on profit before income tax | Effect on profit before income tax |
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Interest rate change | | | | |
| 2 % increase | <u>(63,728)</u> | <u>(39,305)</u> | <u>(63,728)</u> | <u>(39,305)</u> |
| 2 % decrease | <u>63,728</u> | <u>39,305</u> | <u>63,728</u> | <u>39,305</u> |

A negative amount indicates a reduction in profit before tax while a positive amount indicates an increase in profit before tax

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4 Financial risk management (continued)

4.3 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, amounts due from related parties as well as credit exposures to wholesale and retail customers, including outstanding trade and other receivables. Only approved financial institutions with sound capital bases are utilised to invest surplus funds. For customers, management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits are regularly monitored. Sales to retail customers are settled in cash or using bank transfers. There is no independent credit rating system available in Malawi.

The maximum exposure to credit risk at 31 December is as follows:

| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| Trade and other receivables (excluding prepayments) | 325,762 | 291,488 | 324,395 | 291,488 |
| Amounts due from related parties | - | 364,797 | - | 364,797 |
| Cash and cash equivalents | 25,044 | 73,414 | 15,978 | 62,527 |
| | <u>350,806</u> | <u>729,699</u> | <u>340,373</u> | <u>718,812</u> |

The fair value of financial assets at 31 December approximates the carrying amount as the impact of discounting is not significant.

There is no significant concentration risk with respect to cash and cash equivalents as the Group holds bank accounts with large financial institutions with sound financial and capital cover.

4.4 Liquidity risk management

Liquidity risk is the risk that the Group may fail to meet its payment obligations when they fall due, the consequences of which may be the failure to meet the obligations to creditors.

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 company's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturity analysis for financial assets and financial liabilities are detailed below:

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4 Financial risk management (continued)

CONSOLIDATED

At 31 December 2019

| | Up to 1 month K'000 | 6 to 12 months K'000 | above 12 months K'000 | Total K'000 |
|--|---------------------------|----------------------------|-----------------------------|----------------|
| Financial assets | | | | |
| Trade and other receivables (excluding prepayments) | 325,762 | - | - | 325,762 |
| Cash and cash equivalents | 25,044 | - | - | 25,044 |
| Total financial assets | 350,806 | - | - | 350,806 |
| Financial liabilities | | | | |
| Trade and other payables (excluding statutory liabilities) | 811,915 | - | - | 811,915 |
| Borrowings | 1,718,355 | - | 1,468,063 | 3,186,418 |
| Amounts due to related parties | 276,689 | - | - | 276,689 |
| Total financial liabilities | 2,806,959 | - | 1,468,063 | 4,275,022 |
| Periodic gap | (2,456,153) | - | (1,468,063) | (3,924,216) |
| Cumulative gap | (2,456,153) | (2,456,153) | (3,924,216) | |

At 31 December 2018

| | | | | |
|--|-------------|-------------|-------------|-------------|
| Financial assets | | | | |
| Trade and other receivables (excluding prepayments) | 291,488 | - | - | 291,488 |
| Amounts due from related parties | 364,797 | - | - | 364,797 |
| Cash and cash equivalents | 73,414 | - | - | 73,414 |
| Total financial assets | 729,699 | - | - | 729,699 |
| Financial liabilities | | | | |
| Trade and other payables (excluding statutory liabilities) | 960,088 | - | - | 960,088 |
| Borrowings | 1,481,639 | - | 483,535 | 1,965,174 |
| Amounts due to related parties | - | - | - | - |
| Total financial liabilities | 2,441,727 | - | 483,535 | 2,925,262 |
| Periodic gap | (1,712,028) | - | (483,535) | (2,195,563) |
| Cumulative gap | (1,712,028) | (1,712,028) | (2,195,563) | |

Makandi Tea & Coffee Estates Limited

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4 Financial risk management (continued)

COMPANY

| | Up to 1 month K'000 | 6 to 12 months K'000 | above 12 months K'000 | Total K'000 |
|--|---------------------------|----------------------------|-----------------------------|--------------------|
| At 31 December 2019 | | | | |
| Financial assets | | | | |
| Trade and other receivables (excluding prepayments) | 324,395 | - | - | 324,395 |
| Amounts due from related parties | - | - | - | - |
| Cash and cash equivalents | | | | |
| Total financial assets | <u>324,395</u> | <u>-</u> | <u>-</u> | <u>324,395</u> |
| Financial liabilities | | | | |
| Trade and other payables (excluding statutory liabilities) | | - | - | - |
| Borrowings | | - | 1,468,063 | 1,468,063 |
| Amounts due to related parties | | - | - | - |
| Total financial liabilities | | <u>-</u> | <u>1,468,063</u> | <u>1,468,063</u> |
| Periodic gap | <u>324,395</u> | <u>-</u> | <u>(1,468,063)</u> | <u>(1,143,668)</u> |
| Cumulative gap | <u>324,395</u> | <u>324,395</u> | <u>(1,143,668)</u> | |
| At 31 December 2018 | | | | |
| Financial assets | | | | |
| Trade and other receivables (excluding prepayments) | 291,488 | - | - | 291,488 |
| Amounts due from related parties | 364,797 | - | - | 364,797 |
| Bank and cash equivalents | - | - | - | - |
| Total financial assets | <u>656,285</u> | <u>-</u> | <u>-</u> | <u>656,285</u> |
| Financial liabilities | | | | |
| Trade and other payables (excluding statutory liabilities) | 969,907 | - | - | 969,907 |
| Borrowings | | - | 483,535 | 483,535 |
| Amounts due to related parties | | - | - | - |
| Total financial liabilities | <u>969,907</u> | <u>-</u> | <u>483,535</u> | <u>1,453,442</u> |
| Periodic gap | <u>(313,622)</u> | <u>-</u> | <u>(483,535)</u> | <u>(797,157)</u> |
| Cumulative gap | <u>(313,622)</u> | <u>(313,622)</u> | <u>(797,157)</u> | |

4.5 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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4 Financial risk management (continued)

The gearing ratios at 31 December were as follows:

| | CONSOLIDATED | | COMPANY | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| Total borrowings | 3,186,418 | 1,965,174 | 3,186,418 | 1,965,174 |
| Less: cash and cash equivalents | (25,044) | (73,414) | (15,978) | (62,527) |
| Net debt | 3,161,374 | 1,891,760 | 3,170,440 | 1,902,647 |
| Equity | 17,768,030 | 18,656,326 | 17,259,220 | 18,220,097 |
| Total capital | 20,929,404 | 20,548,086 | 20,429,660 | 20,122,744 |
| Net debt to equity ratio | 15% | 9% | 16% | 9% |

4.6 Agricultural risk management

Agricultural risk management strategies related to agricultural activities include the employment of specialists to market crops, installation of irrigation facilities where possible, growing drought resistant varieties and the continuous monitoring by management of local and foreign prices for produce.

4.7 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Quoted market prices - Level 1

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on going basis. This level includes listed equity securities traded on the Malawi Stock Exchange.

Valuation technique using observable inputs - Level 2

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market either directly (that is, as prices) or indirectly (that is, derived from prices).

Valuation technique using significant and unobservable inputs - Level 3

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

The hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The Group had no financial assets or liabilities carried at fair value as at 31 December 2019 (2018: K nil). At 31 December 2019 the Group had biological assets amounting to K1,382,028,000 (2018: K1,424,664,000) classified under level 3 in addition, the group had bearer plants disclosed as property, plant and equipment of K13,077,484 (2018: K12,201,549) classified under level 3.

Comparison of carrying amounts and fair values for assets and liabilities not held at fair value. The fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Makandi Tea & Coffee Estates Limited

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4 Financial risk management (continued)

4.7 Fair value hierarchy (continued)

Valuation technique using significant and unobservable inputs - Level 3 (continued)

The carrying amounts of other financial liabilities carried at amortised cost closely approximate their fair values. The impact of discounting on borrowings and trade and other payables is not significant due to the market terms (rates and tenor) available(borrowings) and because the instruments are short term in nature (trade and other payables).

The carrying amount of financial assets not held at fair value approximate the respective fair values as the instruments are short term in nature.

4.8 Financial instruments by category

| | CONSOLIDATED | | COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Assets as per statement of financial position | | | | |
| Loans and receivables: | | | | |
| Trade and other receivables (excluding prepayments) | 459,187 | 291,488 | 457,820 | 291,488 |
| Amounts due from related parties | - | 364,797 | - | 364,797 |
| Cash and cash equivalents | 25,044 | - | 15,978 | - |
| | <u>484,231</u> | <u>656,285</u> | <u>473,798</u> | <u>656,285</u> |
| Liabilities as per statement of financial position | | | | |
| Other financial liabilities at amortized cost: | | | | |
| Trade and other payables (excluding statutory liabilities) | 854,111 | - | 850,790 | 969,907 |
| Amounts due to related parties | 276,689 | 43,717 | 287,909 | - |
| Borrowings | 3,186,418 | 1,965,174 | 3,186,418 | 1,965,174 |
| | <u>4,317,218</u> | <u>2,008,891</u> | <u>4,325,117</u> | <u>2,935,081</u> |

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

Notes to the consolidated and separate financial statements

5 Property, plant and equipment

Consolidated

| | Freehold land K'000 | Freehold buildings K'000 | Plant and equipment K'000 | Furniture &Fittings K'000 | Motor vehicles K'000 | Bearer plants Mature K'000 | Immature K'000 | Total K'000 |
|-------------------------------------|---------------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------|----------------------------------|-------------------|-------------------|
| Year ended 31 December 2018 | | | | | | | | |
| Opening net book amount | 2,394,644 | 1,964,938 | 4,546,458 | 87,450 | 440,285 | 12,845,209 | 2,580,168 | 24,859,152 |
| Additions | - | 84,341 | 506,504 | 37,273 | 90,115 | - | 1,069,289 | 1,787,522 |
| Revaluation loss | - | - | - | - | - | (378,940) | - | (378,940) |
| Reclassification | - | - | - | - | - | 493,131 | (493,131) | - |
| Depreciation charge | - | (69,548) | (449,443) | (28,254) | (87,302) | (757,851) | - | (1,392,398) |
| Closing net book amount | 2,394,644 | 1,979,731 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 24,875,336 |
| At 31 December 2018 | | | | | | | | |
| Cost/valuation | 2,394,644 | 2,049,279 | 5,052,962 | 124,723 | 530,400 | 12,201,549 | 3,156,326 | 25,509,886 |
| Accumulated depreciation | - | (69,548) | (449,443) | (28,254) | (87,302) | - | - | (634,547) |
| Closing net book amount | 2,394,644 | 1,979,731 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 24,875,336 |
| Year ended 31 December 2019 | | | | | | | | |
| Opening net book amount | 2,394,644 | 1,979,731 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 24,875,336 |
| Additions | - | 16,313 | 147,476 | 15,579 | - | - | 1,035,654 | 1,215,022 |
| Revaluation surplus | - | - | - | - | - | 867,592 | - | 867,592 |
| Assets on acquisition of subsidiary | 864,544 | 105,554 | - | - | - | 8,343 | - | 978,441 |
| Disposals:- Cost | - | - | (207,006) | - | - | - | - | (207,006) |
| - Accumulated depreciation | - | - | 14,353 | - | - | - | - | 14,353 |
| Depreciation charge | - | (88,850) | (460,166) | (20,576) | (50,121) | (757,840) | - | (1,377,553) |
| Closing net book amount | 3,259,188 | 2,012,748 | 4,098,176 | 91,472 | 392,977 | 12,319,644 | 4,191,980 | 26,366,185 |
| At 31 December 2019 | | | | | | | | |
| Cost/valuation | 3,259,188 | 2,099,471 | 4,558,342 | 112,048 | 443,098 | 12,319,644 | 4,191,980 | 27,743,738 |
| Accumulated depreciation | - | (88,850) | (460,166) | (20,576) | (50,121) | - | - | (1,377,553) |
| Closing net book amount | 3,259,188 | 2,012,748 | 4,098,176 | 91,472 | 392,977 | 12,319,644 | 4,191,980 | 26,366,185 |

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

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5 Property, plant and equipment

Company

| | Freehold land K'000 | Freehold buildings & construction K'000 | Plant and equipment K'000 | Furniture & fittings K'000 | Motor vehicles K'000 | Bearer plants Mature K'000 | Bearer plants Immature K'000 | Total K'000 |
|------------------------------------|---------------------------|--|---------------------------------|----------------------------------|----------------------------|----------------------------------|------------------------------------|-------------------|
| Year ended 31 December 2018 | | | | | | | | |
| Opening net book amount | 1,306,169 | 1,568,036 | 4,546,458 | 87,450 | 440,285 | 12,845,209 | 2,580,168 | 23,373,775 |
| Additions | - | 84,341 | 506,504 | 37,273 | 90,115 | - | 1,069,289 | 1,787,522 |
| Revaluation loss | - | - | - | - | - | (378,940) | - | (378,940) |
| Reclassification | - | - | - | - | - | 493,131 | (493,131) | - |
| Depreciation charge | - | (57,512) | (449,443) | (28,254) | (87,302) | (757,851) | - | (1,380,362) |
| Closing net book amount | 1,306,169 | 1,594,865 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 23,401,995 |
| At 31 December 2018 | | | | | | | | |
| Cost/valuation | 1,306,169 | 1,652,377 | 5,052,962 | 124,723 | 530,400 | 12,201,549 | 3,156,326 | 24,024,506 |
| Accumulated depreciation | - | (57,512) | (449,443) | (28,254) | (87,302) | - | - | (622,511) |
| Closing net book amount | 1,306,169 | 1,594,865 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 23,401,995 |
| Year ended 31 December 2019 | | | | | | | | |
| Opening net book amount | 1,306,169 | 1,594,865 | 4,603,519 | 96,469 | 443,098 | 12,201,549 | 3,156,326 | 23,401,995 |
| Additions | - | 16,313 | 147,476 | 15,579 | - | - | 1,035,654 | 1,215,022 |
| Revaluation surplus | - | - | - | - | - | 735,640 | - | 735,640 |
| Disposals: - Cost | - | - | (207,006) | - | - | - | - | (207,006) |
| - Accumulated depreciation | - | - | 14,353 | - | - | - | - | 14,353 |
| Depreciation charge | - | (66,739) | (460,165) | (20,576) | (50,121) | (757,840) | - | (1,355,441) |
| Closing net book amount | 1,306,169 | 1,544,439 | 4,098,177 | 91,472 | 392,977 | 12,179,349 | 3,434,140 | 23,804,563 |
| At 31 December 2019 | | | | | | | | |
| Cost/valuation | 1,306,169 | 1,611,178 | 4,558,342 | 112,048 | 443,098 | 12,937,189 | 4,191,980 | 25,160,004 |
| Accumulated depreciation | - | (66,739) | (460,165) | (20,576) | (50,121) | (757,840) | - | (1,355,441) |
| Closing net book amount | 1,306,169 | 1,544,439 | 4,098,177 | 91,472 | 392,977 | 12,179,349 | 3,434,140 | 23,804,563 |

The property, plant and equipment were revalued as at 31 December 2019 by the directors where only specific variables were considered based on revaluation framework established by external evaluator, Charles Chifamba, MRICS, a qualified valuer of Interval Services (Proprietary) Limited based in Botswana in 2017. The basis of valuation was market value assuming continuing present usage. In the opinion of directors, these amounts approximate the fair value of property, plant and equipment at the reporting date. The Company movable and immovable assets including property, plant and equipment are pledged as collateral for bank overdraft (note 12 & 17)

Makandi Tea & Coffee Estates Limited

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5 Property, plant and equipment

| CONSOLIDATED | At Cost K'000 | Accumulated depreciation | Total K'000 |
|--------------------------------|--------------------------|-------------------------------------|------------------------|
| Freehold land | 2,397,622 | - | 2,397,622 |
| Freehold buildings | 1,388,291 | 263,490 | 1,124,801 |
| Plant, equipment and furniture | 3,753,522 | 1,192,961 | 2,560,561 |
| Motor vehicles | 840,814 | 237,688 | 603,126 |
| | <u>8,380,249</u> | <u>1,694,139</u> | <u>6,686,110</u> |
| COMPANY | | | |
| Freehold land | 488,528 | - | 488,528 |
| Freehold buildings | 1,041,998 | 241,285 | 800,713 |
| Plant, equipment and furniture | 3,883,256 | 1,193,161 | 2,690,095 |
| Motor vehicles | 840,814 | 237,688 | 603,126 |
| | <u>6,254,596</u> | <u>1,672,135</u> | <u>4,582,461</u> |

6 Investments in subsidiaries

| | 2019 K'000 | 2018 K'000 |
|------------------------|-----------------------|-----------------------|
| AM Henderson Limited | 1,064,431 | 1,064,431 |
| Ntimabi Estate Limited | 920,164 | - |
| | <u>1,984,595</u> | <u>1,064,431</u> |

Chiwale Estate Management Services Limited is a dormant company.

7 Biological assets – Harvest

| CONSOLIDATED | Tea K'000 | Macadamia K'000 | Timber K'000 | Total K'000 |
|--|----------------------|----------------------------|-------------------------|------------------------|
| Year ended 31 December 2018 | | | | |
| Carrying amount at 1 January | 181,485 | 295,813 | 504,907 | 802,759 |
| Fair value adjustment | (85,073) | 263,043 | 264,489 | 442,459 |
| Carrying amount at 31 December 2018 | <u>96,412</u> | <u>558,856</u> | <u>769,396</u> | <u>1,424,664</u> |
| Year ended 31 December 2019 | | | | |
| Carrying amount at 1 January | 96,412 | 558,856 | 769,396 | 1,424,664 |
| Fair value adjustment | (86,200) | (3,608) | 47,172 | (42,636) |
| Carrying amount at 31 December 2019 | <u>10,212</u> | <u>555,248</u> | <u>816,568</u> | <u>1,382,028</u> |
| COMPANY | Tea K'000 | Macadamia K'000 | Timber K'000 | Total K'000 |
| Year ended 31 December 2018 | | | | |
| Carrying amount at 1 January | 181,485 | 295,813 | 504,907 | 982,205 |
| Fair value adjustment | (85,073) | 263,043 | 264,489 | 442,459 |
| Carrying amount at 31 December 2018 | <u>96,412</u> | <u>558,856</u> | <u>769,396</u> | <u>1,424,664</u> |
| Year ended 31 December 2019 | | | | |
| Carrying amount at 1 January | 96,412 | 558,856 | 769,396 | 1,424,664 |
| Fair value adjustment | (86,200) | (3,608) | 47,172 | (42,636) |
| Carrying amount at 31 December 2019 | <u>10,212</u> | <u>555,248</u> | <u>816,568</u> | <u>1,382,028</u> |

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7 Biological assets – Harvest

CONSOLIDATED

Expected plantation areas to harvest

At 31 December 2019

| | Tea Hectares | Macadamia Hectares | Timber Hectares | Total Hectares |
|----------|-------------------------|-------------------------------|----------------------------|---------------------------|
| Mature | 1,964 | 304 | 62 | 2,330 |
| Immature | 81 | 906 | 645 | 1,632 |
| | <u>2,045</u> | <u>1,210</u> | <u>707</u> | <u>3,962</u> |

| | Kilograms | Kilograms | Cubic meters | |
|---|------------------|------------------|-------------------------|--|
| Output of agricultural produce during the year (Kg) | 5,334,172 | 262,224 | 21,561 | |

Expected plantation areas to harvest

At 31 December 2018

| | Tea Hectares | Macadamia Hectares | Timber Hectares | Total Hectares |
|----------|-------------------------|-------------------------------|----------------------------|---------------------------|
| Mature | 1,919 | 304 | 101 | 2,324 |
| Immature | 126 | 830 | 525 | 1,481 |
| | <u>2,045</u> | <u>1,134</u> | <u>626</u> | <u>3,805</u> |

| | Kilograms | Kilograms | Cubic meters | |
|---|------------------|------------------|-------------------------|--|
| Output of agricultural produce during the year (Kg) | 6,100,783 | 244,046 | 30,406 | |

COMPANY

Expected plantation areas to harvest

At 31 December 2019

| | Tea Hectares | Macadamia Hectares | Timber Hectares | Total Hectares |
|----------|-------------------------|-------------------------------|----------------------------|---------------------------|
| Mature | 1,964 | 304 | 62 | 2,330 |
| Immature | 81 | 906 | 645 | 1,632 |
| | <u>2,045</u> | <u>1,210</u> | <u>707</u> | <u>3,962</u> |

| | Kilograms | Kilograms | Cubic meters | |
|---|------------------|------------------|-------------------------|--|
| Output of agricultural produce during the year (Kg) | 5,334,172 | 262,224 | 21,561 | |

At 31 December 2018

Expected plantation areas to harvest

| | Tea Hectares | Macadamia Hectares | Timber Hectares | Total Hectares |
|----------|-------------------------|-------------------------------|----------------------------|---------------------------|
| Mature | 1,919 | 304 | 101 | 2,324 |
| Immature | 126 | 830 | 525 | 1,481 |
| | <u>2,045</u> | <u>1,134</u> | <u>626</u> | <u>3,805</u> |

| | Kilograms | Kilograms | Cubic meters | |
|---|------------------|------------------|-------------------------|--|
| Output of agricultural produce during the year (Kg) | 6,100,783 | 244,046 | 30,406 | |

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7 Biological assets – plantations

There is no expected yield from immature tea of less than three years old and immature macadamia nut trees of less than seven years old.

The fair value of growing tea, macadamia nut and growing timber is determined using inputs that are unobservable using the best information available in the circumstances and therefore are level 3 fair value category.

| | CONSOLIDATED | | COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| 8 Future crop expenditure | | | | |
| At beginning of the year | 37,861 | 60,699 | 37,861 | 60,699 |
| Additions during the year | 81,547 | 37,861 | 81,547 | 37,861 |
| Transfer to produce inventories on harvesting | (37,861) | (60,699) | (37,861) | (60,699) |
| At end of the year | <u>81,547</u> | <u>37,861</u> | <u>81,547</u> | <u>37,861</u> |
| 9 Inventories | | | | |
| Sundry consumables | 893,394 | 973,111 | 893,394 | 973,111 |
| Agricultural produce | 641,714 | 265,142 | 641,714 | 265,142 |
| Tea nursery | 163,810 | 124,747 | 163,810 | 124,747 |
| Macadamia nursery | 113,077 | 100,026 | 113,077 | 100,026 |
| Forestry nursery | 2,067 | 3,686 | 2,067 | 3,686 |
| | <u>1,814,062</u> | <u>1,466,712</u> | <u>1,814,062</u> | <u>1,466,712</u> |
| 10 Trade and other receivables | | | | |
| Trade receivables | 279,631 | 241,159 | 278,264 | 241,159 |
| Prepayments | 28,884 | 190,729 | 28,884 | 190,729 |
| Insurance claims | - | 165,000 | - | 165,000 |
| Value Added Tax ("VAT") recoverable | 104,541 | 189,176 | 104,541 | 189,176 |
| Other receivables | 46,131 | 50,329 | 46,131 | 50,329 |
| | <u>459,187</u> | <u>836,393</u> | <u>457,820</u> | <u>836,393</u> |
| At 31 December, the ageing analysis of these trade receivables is as follows: | | | | |
| Up to 1 month | 108,657 | 129,452 | 108,657 | 129,452 |
| 1 month to 3 months | 89,724 | 78,165 | 89,724 | 78,165 |
| 3 months to 12 months | 79,883 | 33,542 | 79,883 | 33,542 |
| | <u>278,264</u> | <u>241,159</u> | <u>278,264</u> | <u>241,159</u> |

As of 31 December 2019, trade receivables of K278,954,000 (2018: K207,616,000) were fully performing.

As at 31 December 2019, Group and Company trade receivables of K Nil (2018: K Nil) were past due and not impaired.

These relate to a number of independent customers for whom there is no recent history of default.

The group writes off trade and related party receivables that are uncollectible. This determination is reached after considering the terms of trade and the financial position of each customer. Directors have also considered the credit loss that might arise from the trade receivables and have concluded that the carrying amounts approximate the fair values.

Each customer has been assessed individually and from the historical data all the cashflows are receivable within the 12 month cycle.

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10 Trade and other receivables

The ageing analysis of these trade receivables is as follows:

| | CONSOLIDATED | | COMPANY | |
|-----------------------|---------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| 3 months to 12 months | <u>79,883</u> | <u>33,542</u> | <u>79,883</u> | <u>33,542</u> |

It was assessed that all receivables are expected to be recovered.

The carrying amounts of the Group's trade receivables are denominated in the following currency:

| | | | | |
|-----------------------|----------------|----------------|----------------|----------------|
| United States Dollars | <u>278,954</u> | <u>241,158</u> | <u>278,954</u> | <u>241,158</u> |
|-----------------------|----------------|----------------|----------------|----------------|

The Group does not hold any collateral as security and the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The fair value of Group's trade and other receivables areas stated above, because of their short tenor. There are no impaired trade and other receivables.

11 Related party balances and transactions

The relationships between the group and company and respective related parties is as detailed below:

| Name | Relationship |
|------------------------------------|-------------------------|
| Dhunseri Petrochem & Tea (Pte) Ltd | Holding Company |
| Kawalazi Estate Company Ltd | fellow group subsidiary |
| A.M. Henderson & Sons Limited | Subsidiary |
| Ntimabi Estate Limited | Subsidiary |

The following transactions were carried out with related parties:

11.1 Sales to fellow group subsidiary

| | | | | |
|---------------------------------|------------------|------------------|------------------|------------------|
| Kawalazi Estate Company Limited | <u>1,175,675</u> | <u>1,019,614</u> | <u>1,175,675</u> | <u>1,019,614</u> |
|---------------------------------|------------------|------------------|------------------|------------------|

11.2 Fees charged

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Land rent - A.M. Henderson & Sons Limited | 2,600 | - | 3,000 | 2,600 |
| Accountancy fees - A.M. Henderson & Sons Ltd | 500 | - | 466 | 500 |
| Land rent - Ntimabi Estate Limited | 750 | - | 750 | - |
| Accountancy fees - Ntimabi Estate Limited | 233 | - | 233 | - |
| Dhunseri Petrochem & Tea Pte Ltd (note 20): | | | | |
| Group recharges | 176,869 | 167,517 | 176,869 | 167,517 |
| Management fees | 87,335 | 141,093 | 87,335 | 141,093 |
| Technical fees | <u>135,771</u> | <u>135,771</u> | <u>135,771</u> | <u>135,771</u> |
| | <u>399,975</u> | <u>444,381</u> | <u>399,975</u> | <u>447,481</u> |

Makandi Tea & Coffee Estates Limited

Consolidated and separate financial statements for the year ended 31 December 2019

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| | | | | | |
|--|--|---|--------------------|--------------------|--------------------|
| 11.3 | | The following year end balances arose from transactions with related parties | | | |
| | | Consolidated | | Company | |
| | | 2019 | 2018 | 2019 | 2018 |
| | | K'000 | K'000 | K'000 | K'000 |
| (i) | Amounts due from related parties: | | | | |
| | Kawalazi Estate Company Limited | - | 364,797 | - | 364,797 |
| (ii) | Amounts due to related parties | | | | |
| | A.M. Henderson & Sons Ltd | - | - | 10,336 | 5,517 |
| | Ntimabi Estate Ltd | - | - | 884 | - |
| | Kawalazi Estate Company Limited | 233,162 | - | 233,162 | - |
| | Dhunseri Petrochem& Tea Pte Limited | 43,527 | - | 43,527 | - |
| | | <u>276,689</u> | <u>-</u> | <u>287,909</u> | <u>5,517</u> |
| <p>The amounts due bear no interest. Amounts due from related parties are considered not impaired. The group writes off trade and related party receivables that are uncollectible. This determination is reached after considering the terms of trade and the financial position of each customer. Directors have also considered the credit loss that might arise from the trade receivables and have concluded that the carrying amounts approximate the fair values. Each customer has been assessed individually and from the historical data all the cashflows are receivable within the 12 month cycle.</p> | | | | | |
| 11.4 | Key management compensation | | | | |
| | Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is as follows: | | | | |
| | Short term benefits: Salaries and bonuses | <u>176,869</u> | <u>167,517</u> | <u>176,869</u> | <u>167,517</u> |
| 12 | Cash and cash equivalents | | | | |
| | Current accounts | 16,956 | 69,573 | 7,890 | 58,686 |
| | Cash on hand | 8,088 | 3,841 | 8,088 | 3,841 |
| | overdrafts) | <u>25,044</u> | <u>73,414</u> | <u>15,978</u> | <u>62,527</u> |
| | Cash and cash equivalents include the following for purposes of the statement of cash flows: | | | | |
| | Cash and cash equivalents | 25,044 | 73,414 | 15,978 | 62,527 |
| | Bank overdraft (note 17) | <u>(1,460,524)</u> | <u>(1,299,179)</u> | <u>(1,460,524)</u> | <u>(1,299,179)</u> |
| | Cash and cash equivalents | <u>(1,435,480)</u> | <u>(1,225,765)</u> | <u>(1,444,546)</u> | <u>(1,236,652)</u> |
| <p>Bank overdraft is denominated in US Dollars and attract interest at 8% per annum. The facility is secured by the group's movable and immovable assets.</p> | | | | | |
| 13 | Share capital | | | | |
| | Authorised, issued and fully paid 6,931,127 ordinary shares of K2 each | <u>13,862</u> | <u>13,862</u> | <u>13,862</u> | <u>13,862</u> |

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14 Deferred income taxes

| | CONSOLIDATED | | COMPANY | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| The analysis of deferred income tax assets and deferred income tax liabilities is as follows: | | | | |
| Deferred income tax assets: | | | | |
| Deferred income tax assets to be recovered after more than 12 months | - | - | - | - |
| Deferred income tax assets to be recovered within 12 months | 189,020 | 30,029 | 189,020 | 30,029 |
| | <u>189,020</u> | <u>30,029</u> | <u>189,020</u> | <u>30,029</u> |
| Deferred income tax liabilities: | | | | |
| Deferred income tax liabilities to be recovered after more than 12 months | (7,138,488) | (6,989,342) | (7,105,115) | (6,989,342) |
| Deferred income tax liabilities to be recovered within 12 months | - | - | - | - |
| | <u>(7,142,071)</u> | <u>(6,989,342)</u> | <u>(7,105,115)</u> | <u>(6,989,342)</u> |
| Deferred income tax liabilities, (net) | <u>(6,949,468)</u> | <u>(6,959,313)</u> | <u>(6,916,095)</u> | <u>(6,959,313)</u> |
| The gross movement in the deferred income tax account is as follows: | | | | |
| At 1 January | (6,959,313) | (6,845,116) | (6,959,313) | (6,845,116) |
| Charged/(credited) to the income statement | 270,121 | (227,542) | 263,909 | (227,542) |
| Deferred tax on acquisition | (39,585) | - | - | - |
| Credited/(credited) to other comprehensive income | -(220,691) | 113,345 | (220,691) | 113,345 |
| At 31 December | <u>(6,949,468)</u> | <u>(6,959,313)</u> | <u>(6,916,095)</u> | <u>(6,959,313)</u> |

balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

| | Accelerated tax depreciation | Fair value gains | Total |
|---|-------------------------------------|---------------------------|---------------------------|
| | K'000 | K'000 | K'000 |
| CONSOLIDATED | | | |
| At 1 January 2018 | (1,278,544) | (5,596,754) | (6,875,298) |
| Charged to the income statement | (94,803) | (132,739) | (227,542) |
| Credited/(credited) to other comprehensive income | - | 143,527 | 143,527 |
| Deferred tax on acquisition | - | - | - |
| At 31 December 2018 | <u>(1,373,347)</u> | <u>(5,585,966)</u> | <u>(6,959,313)</u> |
| Charged to the income statement | 112,662 | 157,459 | 270,121 |
| Credited/(credited) to other comprehensive income | - | (220,691) | (220,691) |
| Deferred tax on acquisition -OCI | - | (39,585) | (39,585) |
| At 31 December 2019 | <u>(1,263,314)</u> | <u>(5,688,743)</u> | <u>(6,949,468)</u> |

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| | Accelerated tax depreciation K'000 | Fair value gains K'000 | Total K'000 |
|---|---|------------------------------|------------------------|
| 14 Deferred income taxes (continued) | | | |
| COMPANY | | | |
| At 1 January 2018 | (1,278,544) | (5,596,754) | (6,875,298) |
| Charged to the income statement | (94,803) | (132,739) | (227,542) |
| Credited/(credited) to other comprehensive income | - | 143,527 | 143,527 |
| At 31 December 2018 | (1,373,347) | (5,585,966) | (6,959,313) |
| Charged to the income statement | 106,450 | 157,459 | 263,909 |
| Credited/(credited) to other comprehensive income | - | (220,691) | (220,691) |
| At 31 December 2019 | <u>(1,266,897)</u> | <u>(5,649,198)</u> | <u>(6,916,095)</u> |
| CONSOLIDATED | | | |
| Deferred income tax assets | | | |
| | Tax losses K'000 | Other K'000 | Total K'000 |
| At 1 January 2018 | - | 30,182 | 30,182 |
| Charged to the income statement | - | (153) | (153) |
| At 31 December 2018 | - | 30,029 | 30,029 |
| Charged to income statement | 142,806 | 16,185 | 158,991 |
| At 31 December 2019 | <u>142,806</u> | <u>46,214</u> | <u>189,020</u> |
| COMPANY | | | |
| Deferred income tax assets | | | |
| | Tax losses K'000 | Other K'000 | Total K'000 |
| At 1 January 2018 | - | 30,182 | 30,182 |
| Charged to the income statement | - | (153) | (153) |
| At 31 December 2018 | - | 30,029 | 30,029 |
| Charged to income statement | 142,806 | 16,185 | 158,991 |
| At 31 December 2019 | <u>142,806</u> | <u>46,214</u> | <u>189,020</u> |

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| 15 | Employee benefit obligation | CONSOLIDATED | | COMPANY | |
|----|--|---------------|-------------------------|--------------------------|-----------------------|
| | | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| | Pension and gratuity payable | 66,888 | 39,645 | 66,888 | 39,645 |
| | Amounts further analysed as follows; | | | | |
| | CONSOLIDATED AND COMPANY | | | | |
| | Year ended 31 December 2019 | | Pension K000 | Gratuity K000 | Total K000 |
| | At the beginning of the year | | 21,245 | 6,582 | 27,827 |
| | Charged to the income statement | | 59,799 | 231,053 | 290,852 |
| | Payments during the year | | (76,169) | (175,622) | (251,791) |
| | At the end of the year | | 4,875 | 62,013 | 66,888 |
| | Year ended 31 December 2018 | | | | |
| | At the beginning of the year | | 509 | 11,858 | 56,118 |
| | Charged to the income statement | | 47,752 | 100,616 | 148,368 |
| | Payments during the year | | (27,016) | (105,892) | (132,908) |
| | At the end of the year | | 21,245 | 6,582 | 27,827 |
| | The amounts are disclosed on the statement of financial position as follows: | | | 2019 K'000 | 2018 K'000 |
| | Non-current liabilities | | | - | - |
| | Current liabilities | | | 66,888 | 27,827 |
| | | | | 66,888 | 27,827 |
| 16 | Trade and other payables | CONSOLIDATED | | COMPANY | |
| | | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| | Trade payables | 613,709 | 747,507 | 610,654 | 737,690 |
| | Unpaid wages | 181,922 | 205,939 | 181,922 | 205,939 |
| | TEVET levy payable | 13,401 | 5,134 | 13,401 | 5,134 |
| | Value added tax payable | 5,163 | - | 5,163 | - |
| | Pay as you earn payable | 12,581 | 12,406 | 12,581 | 12,406 |
| | Fringe benefit tax payable | 2,908 | 11,301 | 2,908 | 11,301 |
| | Withholding tax payable | 8,143 | 1,298 | 8,143 | 1,298 |
| | Accruals | 16,019 | 6,642 | 16,019 | 6,642 |
| | Accrued goods received notes | - | - | - | - |
| | Bonus provision (note 15.1) | - | - | - | - |
| | | 853,846 | 990,227 | 850,791 | 980,410 |

Trade and other payables are due within twelve months from the reporting date:

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| 17 | Borrowings | CONSOLIDATED | | COMPANY | |
|----|--|------------------|------------------|------------------|------------------|
| | | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| | At the beginning of the year | 665,995 | 725,650 | 665,995 | 725,650 |
| | Additions in the year | 1,104,990 | - | 1,104,990 | - |
| | Repayments in the year | (45,091) | (59,655) | (45,091) | (59,655) |
| | At the end of the year | <u>1,725,894</u> | <u>665,995</u> | <u>1,725,894</u> | <u>665,995</u> |
| | Bank overdraft | <u>1,460,524</u> | <u>1,299,179</u> | <u>1,460,524</u> | <u>1,299,179</u> |
| | Total borrowings | <u>3,186,418</u> | <u>1,965,174</u> | <u>3,186,418</u> | <u>1,965,174</u> |
| | The amounts are disclosed on the statement of financial position as follows; | | | | |
| | Long term loan | <u>1,468,063</u> | <u>483,535</u> | <u>1,468,063</u> | <u>483,535</u> |
| | Current portion of long-term loan | <u>257,831</u> | <u>182,460</u> | <u>257,831</u> | <u>182,460</u> |
| | Bank overdraft | <u>1,460,524</u> | <u>1,299,179</u> | <u>1,460,524</u> | <u>1,299,179</u> |
| | | <u>1,718,355</u> | <u>1,481,639</u> | <u>1,718,355</u> | <u>1,481,639</u> |
| | Total borrowings | <u>3,186,418</u> | <u>1,965,174</u> | <u>3,186,418</u> | <u>1,965,174</u> |
| | The Group has overdraft facilities with National Bank of Malawi amounting to US\$ 2.5 million at an interest rate of 7.5%, an inner facility amounting to MK25.0 million at an interest rate of 25%, two loan facilities of US\$ 2.5million at 7% interest rate. | | | | |
| | The facilities are secured by the plant and machinery at Makandi tea factory and the title deed over Chiwale estate. The facilities were due for review on 31 December 2019. | | | | |
| | The fair value of borrowings approximates their carrying amount as the impact of discounting is not significant. | | | | |
| 18 | Revenue | | | | |
| | Tea | 5,591,065 | 7,501,910 | 5,591,065 | 7,501,910 |
| | Macadamia | <u>1,175,675</u> | <u>1,019,614</u> | <u>1,175,675</u> | <u>1,019,614</u> |
| | | <u>6,766,740</u> | <u>8,521,524</u> | <u>6,766,740</u> | <u>8,521,524</u> |
| 19 | Cost of sales and distribution costs | | | | |
| | Field maintenance costs | 916,268 | 841,937 | 916,268 | 841,937 |
| | Harvesting costs | 1,024,014 | 911,690 | 1,024,014 | 911,690 |
| | Processing costs | 1,298,493 | 1,546,618 | 1,298,493 | 1,546,618 |
| | Estate overheads | 717,297 | 603,840 | 717,297 | 603,840 |
| | Out grower purchases | 171,670 | 225,277 | 171,670 | 225,277 |
| | Depreciation of plant and equipment (note 22.1) | <u>1,256,455</u> | <u>1,260,301</u> | <u>1,256,455</u> | <u>1,260,301</u> |
| | | <u>5,384,197</u> | <u>5,389,663</u> | <u>5,384,197</u> | <u>5,389,663</u> |

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| | CONSOLIDATED | | COMPANY | |
|-------------------------------------|---------------------|------------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| 20 Distribution costs | | | | |
| Brokerage commission costs | 3,124 | 10,865 | 3,124 | 10,865 |
| Courier and transport costs | 281,322 | 244,106 | 281,322 | 244,106 |
| Tea Cess | 53,874 | 62,567 | 53,874 | 62,567 |
| Warehouse costs | 16,600 | 11,416 | 16,600 | 11,416 |
| | <u>354,920</u> | <u>328,954</u> | <u>354,920</u> | <u>328,954</u> |
| 21 Other income | | | | |
| Insurance claims | 39,546 | 172,800 | 39,546 | 172,800 |
| Profit on disposal of fixed assets | - | - | - | - |
| Rent | 9,792 | - | 8,690 | - |
| Other sales | 12,550 | 5,921 | 10,990 | 11,938 |
| | <u>61,888</u> | <u>178,721</u> | <u>59,226</u> | <u>184,738</u> |
| 22 Administrative expenses | | | | |
| Audit fees - current | 31,177 | 18,945 | 29,442 | 18,945 |
| - Prior year | - | - | - | - |
| - expenses | 1,426 | 1,212 | 1,426 | 1,212 |
| Bank charges | 49,642 | 9,191 | 49,642 | 9,191 |
| Clinic expenses | 77,719 | 68,363 | 77,719 | 68,363 |
| Communication expenses | 22,058 | 23,379 | 22,058 | 23,379 |
| Depreciation (note 22.1) | 121,097 | 120,070 | 98,986 | 120,070 |
| Directors expenses | 5,848 | 4,498 | 5,848 | 4,498 |
| Entertainment costs | 7,346 | 13,459 | 7,346 | 13,459 |
| Group recharges (note 10.2) | 176,869 | 167,517 | 176,869 | 167,517 |
| Insurance | 71,588 | 56,148 | 71,588 | 56,148 |
| Legal and professional fees | 51,724 | 77,150 | 51,724 | 77,650 |
| Management fees (note 10.2) | 87,335 | 137,328 | 87,335 | 137,328 |
| Office and stores costs | 38,099 | 33,797 | 38,099 | 33,797 |
| Personnel expenses | 6,032 | 4,547 | 6,032 | 4,547 |
| Staff costs (note 22.2) | 306,556 | 385,143 | 306,556 | 385,143 |
| Security costs | 233,169 | 229,077 | 233,169 | 229,077 |
| Stock (gains)/write offs | (30,376) | 61,969 | (30,376) | 61,969 |
| Subscriptions and donations | 32,886 | 7,281 | 32,886 | 7,281 |
| Other expenses | 14,247 | 18,679 | 13,915 | 18,679 |
| Exchange differences | (80,040) | (63,132) | (80,040) | (63,132) |
| Loss on disposal of fixed assets | 151,166 | - | 151,166 | - |
| Technical fees (note 10.2) | 160,627 | 135,771 | 160,627 | 135,771 |
| Travel and transport | 69,641 | 71,551 | 69,641 | 71,551 |
| | <u>1,605,836</u> | <u>1,581,943</u> | <u>1,581,658</u> | <u>1,582,443</u> |
| 22.1 Depreciation | | | | |
| Charged to administrative expenses | 121,097 | 120,070 | 98,986 | 120,070 |
| Charged to cost of goods sold | 1,256,455 | 1,260,301 | 1,256,455 | 1,260,301 |
| Total depreciation charged (note 5) | <u>1,377,552</u> | <u>1,380,371</u> | <u>1,355,441</u> | <u>1,380,371</u> |
| 22.2 Staff costs | | | | |
| Salaries and wages | 207,355 | 199,309 | 207,355 | 199,309 |
| Leave pay and severance expenses | 19,163 | 111,157 | 19,163 | 111,157 |
| Power and water costs | 21,337 | 19,868 | 21,337 | 19,868 |
| Overtime and allowances | 7,825 | 8,828 | 7,825 | 8,828 |
| Staff housing and other costs | 45,300 | 41,072 | 45,300 | 41,072 |
| Tevet levy | 1,177 | 797 | 1,177 | 797 |
| Other costs | 4,399 | 4,112 | 4,399 | 4,112 |
| | <u>306,556</u> | <u>385,143</u> | <u>306,556</u> | <u>385,143</u> |

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| 23 | Finance income and costs | CONSOLIDATED | | COMPANY | |
|------|---|------------------|----------------|------------------|----------------|
| | | 2019 K'000 | 2018 K'000 | 2019 K'000 | 2018 K'000 |
| | Finance costs | | | | |
| | Interest paid | 222,752 | 126,098 | 222,752 | 126,098 |
| 24 | TAXATION | | | | |
| 24.1 | Income tax expense | | | | |
| | Current income tax | 1,046 | 316,414 | - | 315,370 |
| | Deferred income tax | (270,121) | 227,541 | (263,909) | 227,541 |
| | | <u>(269,075)</u> | <u>543,955</u> | <u>(263,909)</u> | <u>542,911</u> |
| 24.2 | Reconciliation of tax charge | | | | |
| | The tax on the Company's profit before tax differs from the theoretical amount that would arise using the legislated tax rate as follows: | | | | |
| | Profit before income tax | (838,128) | 1,377,306 | (875,414) | 1,377,306 |
| | Tax calculated at a tax rate of 30% | (251,438) | 413,192 | (262,624) | 413,192 |
| | Tax effects of: | | | | |
| | Expenses not deductible for tax purposes | 22,212 | 130,763 | 22,212 | 119,320 |
| | Other differences | (39,849) | - | (23,497) | - |
| | | <u>(269,075)</u> | <u>543,955</u> | <u>(263,909)</u> | <u>532,512</u> |
| 24.3 | Income tax paid | | | | |
| | Current income tax liabilities (recoverable) at 1 January | 323,779 | 239,365 | 333,623 | 250,253 |
| | Current year charge (note 22.1) | 1,046 | 316,414 | - | 315,370 |
| | Paid during the year | (333,678) | (232,000) | (333,678) | (232,000) |
| | Current income tax liabilities at 31 December | <u>(8,853)</u> | <u>323,779</u> | <u>(55)</u> | <u>333,623</u> |
| | Disclosed on the balance sheet as follows: | | | | |
| | Tax recoverable | (8,853) | (9,844) | (55) | - |
| | Current income tax liabilities | - | 322,735 | - | 333,623 |
| | | <u>(8,853)</u> | <u>312,891</u> | <u>(55)</u> | <u>333,623</u> |
| 25 | Deferred acquisition consideration | | | | |
| | On 31 August 2016 the Makandi Tea and Coffee Estates Limited (the parent Entity) acquired 100% of the issued share capital of AM Henderson and Sons Limited, a company which primarily owned land and was in tobacco farming and floriculture. The land owned by the acquired entity will be developed into a macadamia orchard. | | | | |
| | Out of total consideration of K1,064,431,000 an amount of K424,377,000 was agreed to be payable in a period of 9 years. The fair value of the deferred consideration of K 246 538 000 was estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 8.5%. | | | | |
| | On 30 June 2019 Makandi Tea and Coffee Estates Limited (the parent Entity) entered into an agreement to acquire 100% of the issued share capital of Ntimabi Estate Limited, a company which primarily owned land and was in tobacco and dairy farming. The land owned by the acquired entity will be developed into a macadamia orchard. | | | | |
| | Out of a total consideration of K920,164,000 an amount of K420,632,000 was agreed to be payable over a period of 7 years starting from June 2020. The fair value of the deferred consideration of K 307,573,000 was estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 8.5%. | | | | |

Makandi Tea & Coffee Estates Limited

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25 Deferred acquisition consideration (continued)

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | K'000 | K'000 | K'000 | K'000 |
| Balance at 1 January | 167,419 | 204,655 | 167,419 | 204,655 |
| Deferred acquisition costs during the year | 307,573 | - | 307,573 | - |
| Paid during the year | (32,161) | (37,236) | (32,161) | (37,236) |
| Balance at 31 December | <u>442,831</u> | <u>167,419</u> | <u>442,831</u> | <u>167,419</u> |
| Disclosed as: | | | | |
| Non current liabilities | 368,999 | 134,101 | 368,999 | 134,101 |
| Current liabilities | <u>73,832</u> | <u>33,318</u> | <u>73,832</u> | <u>33,318</u> |
| | <u>442,831</u> | <u>167,419</u> | <u>442,831</u> | <u>167,419</u> |

26 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2019 (2018: K nil)

27 CONTINGENT LIABILITIES

| | | | |
|------|------------|----------------|----------------|
| (i) | Guarantees | 11,616 | 25,800 |
| (ii) | Legal | <u>103,142</u> | <u>127,932</u> |
| | | <u>114,758</u> | <u>153,732</u> |

(i) The Group introduces its staff to financial institutions for purposes of obtaining financial assistance. In the event of default by any staff member the Group will be expected to settle the amounts guaranteed.

(ii) There are several ongoing cases in the courts and related contingent liabilities amount to K472,886,000 (2018: K 150,672,000). The directors are of the opinion that there would be no financial loss to the group.

28. Events after the reporting date

The Malawi economy has been affected by the impact of the Covid-19 (Coronavirus) subsequent to year end that has resulted in lockdowns in the global economy. This unprecedented crisis has caused a global economic slowdown. The full impact of Covid-19 will be reflected in the financial statements for the year ending 31 December 2020.

29 Exchange and inflation rates

The closing exchange rates for the major foreign currencies affecting the performance of the company during the period are detailed below:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|-------------|-------------|
| United States Dollar (USD) | 736.66 | 737.35 |
| South African Rand (ZAR) | 52.46 | 62.15 |
| Inflation | 11.50% | 9.90% |

At the time of approval of these financial statements, exchange rates were as follows: -

| | |
|----------------------------|--------|
| United States Dollar (USD) | 736.71 |
| South African Rand (ZAR) | 39.90 |

