KAWALAZI ESTATE COMPANY LIMITED

FINANCIAL STATEMENTS

for the year ended

31 December 2012

**KAWALAZI ESTATE COMPANY LIMITED**

**FINANCIAL STATEMENTS**
**for the year ended 31 December 2012**

INDEX

## KAWALAZI ESTATE COMPANY LIMITED

### DIRECTORS' REPORT
**for the year ended 31 December 2012**

The directors have pleasure in submitting their report and annual financial statements of Kawalazi Estate Company Limited for the year ended 31 December 2012.

**Shareholding and share capital**

The entire shareholding and control of the company changed from Global Tea & Commodities Limited of United Kingdom to Dhunseri Petrochem & Tea Pte Limited of Singapore, a subsidiary of Dhunseri Petrochem & Tea Limited of India on 1st September 2012.

The authorised share capital of the company is MK60 million divided into 60,000,000 ordinary shares of K1 each. 33,984,000 shares has been issued and fully paid.

The shareholders oOf the company is Dhunseri Petrochem & Tea Pte Limited of Singapore, 100%.

**Directors**

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

| | | |
|---|---|---|
| N. Ahmed | Chairman | - to 31st August 2012 |
| F. Ahmed | Director | - to 31st August 2012 |
| M. McBrien | Director | - to 31st August 2012 |
| H.S. Pannu | Director | - to 31st August 2012 |
| L. Khatri | Director | - to 31st August 2012 |
| S. Hara | Director and Company Secretary | - Full year |
| C.K. Dhanuka | Chairman | - from 1stSeptember 2012 |
| M. Dhanuka | Director | - from 1st September 2012 |
| S. Latif | Director | - from 1st September 2012 |
| S. Katoch | Director | - from 1st September 2012 |

**Directors' interests**

No director held shares in the company as at 31 December 2012 except Mr. C.K. Dhanuka who holds one nominee share for Dhunseri Petrochem & Tea Pte Limited.

Other than service contracts as directors, there were no contracts between the company and its directors nor were there any arrangements to enable the directors of the company to acquire shares in the company.

**Activities**

Kawalazi Estate Company Limited is a registered company engaged in the growing, processing and sale of tea and macadamia.

**Areas of operation**

The Company operates from Kawalazi Estate which is situated in Nkhata Bay District.

**Independent auditors**

The independent auditors, KPMG, Certified Public Accountants and Business Advisors, have signified their willingness to continue in office and a resolution proposing their re-appointment will be tables at the forthcoming Annual General Meeting in respect of the company's 31 December 2013 financial statements.

**BY ORDER OF THE BOARD**

**DIRECTOR** **DIRECTOR**

**22 April 2013**

KAWALAZI ESTATE COMPANY LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES
**for the year ended 31 December 2012**

The directors are responsible for the preparation and fair presentation of the annual financial statements of Afro: Malawi Limited, comprising the statement of financial position at 31 December 2012, and the statements o comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financia statements, which include a summary of significant accounting policies and other explanatory notes, and the directors report, in accordance with International Financial Reporting Standards, and in the manner required by the Malaw Companies Act, 1984.

The Act also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Malawi Companies Act, 1984.

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; 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 accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to maintain adequate system of internal controls to as far as possible prevent and detect fraud and other irregularities.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

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

**Approval of the financial statements**
The financial statements of the company were approved for issue by the Board of Directors on **22 April 2013** and were signed on its behalf by:

**DIRECTOR:** ______________________

**DIRECTOR:** ______________________

2013000041

KPMG

**KPMG**
**Public Accountants and Business Advisors**
MASM House, Lower Sclater Road
P.O. Box 508,
Blantyre, Malawi

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAWALAZI ESTATE COMPANY LIMITED

*Report on the financial statements*
We have audited the accompanying financial statements of Kawalazi Estate Company Limited which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 26.

*Directors' and management responsibility for the financial statements*
Directors and management of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in a manner required by the Malawi Companies Act, 1984 and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control system relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, these financial statements give a true and fair view of the financial position of Kawalazi Estate Company Limited as at 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Malawi Companies Act, 1984.

KPMG

**Certified Public Accountants and Business Advisors**
**Lilongwe, Malawi**

**Date:** 22 April **2013**

## KAWALAZI ESTATE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION
**at 31 December 2012**
*In thousands of Malawi Kwacha*

| | Note | 2012 | 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Property, plant and equipment | 4 | 1,048,079 | 1,069,418 |
| Plantations | 5 | 4,639,695 | 1,896,241 |
| Related party loan | 9 | - | 88,032 |
| **Total non current assets** | | 5,687,774 | 3,053,691 |
| **Current assets** | | | |
| Future crop expenditure | 6 | 47,316 | 32,962 |
| Inventories | 7 | 511,237 | 248,065 |
| Trade and other receivables | 8 | 302,836 | 113,702 |
| Related party receivables | 9 | 177,492 | 340,158 |
| Tax recoverable | | 31,641 | 17,241 |
| Cash and cash equivalents | 10 | 28,198 | 13,464 |
| **Total current assets** | | 1,098,720 | 765,592 |
| **Total assets** | | 6,786,494 | 3,819,283 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 20 | 33,984 | 33,984 |
| Share premium | | 10,947 | 10,947 |
| Plantations fair value reserve | 21 | 3,117,021 | 1,206,688 |
| Property revaluation reserve | 22 | 538,578 | 564,760 |
| Retained earnings | | 549,556 | 492,370 |
| **Total equity** | | 4,250,086 | 2,308,749 |
| **Non current liabilities** | | | |
| Deferred tax liabilities | 18 | 1,616,211 | 799,546 |
| Employee benefits provision | 11 | 12,844 | 18,030 |
| **Total non current liabilities** | | 1,629,055 | 817,576 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 410,100 | 169,600 |
| Employee benefits provision | 11 | 5,997 | 11,064 |
| Related party payables | 9 | 22,030 | 258,409 |
| Bank overdraft | 10 | 469,226 | 253,885 |
| **Total current liabilities** | | 907,353 | 692,958 |
| **Total equity and liabilities** | | 6,786,494 | 3,819,283 |

These financial statements were approved by the Board of Directors on **22 April 2013** and were signed on its behalf by:

**DIRECTOR** | **DIRECTOR**

The financial statements are to be read in conjunction with accounting policies and notes on pages 8 to 26.

The independent auditor's report is on page 3.

## KAWALAZI ESTATE COMPANY LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2012**
***In thousands of Malawi Kwacha***

| | Note | 2012 | 2011 |
|---|---|---|---|
| Turnover | 13 | **1,594,418** | 766,358 |
| Cost of sales | | **(1,044,173)** | (605,225) |
| **Gross profit** | | **550,245** | 161,133 |
| Exchange (loss) /gain | 14 | **(11,711)** | 6,742 |
| Fair value adjustment to biological assets | 15 | **2,729,047** | (23,779) |
| Administrative expenses | 16 | **(470,561)** | (287,114) |
| **Results from operating activities** | | **2,797,020** | (143,018) |
| Finance costs | 17 | **(43,631)** | (16,010) |
| Finance income | 17 | **4,613** | 5,164 |
| **Net finance costs** | | **(39,018)** | (10,846) |
| **Profit/(loss) before income tax** | | **2,758,002** | (153,864) |
| Income tax (expense)/credit | 18 | **(816,665)** | 27,434 |
| **Profit/(loss) for the year** | | **1,941,337** | (126,430) |
| **Other comprehensive income** | | | |
| Net change in property revaluation reserve | | **-** | (2,799) |
| **Total comprehensive income for the year** | | **1,941,337** | (129,229) |
| | | | |
| **Basic earnings per share** | | | |
| Basic and diluted earnings per share | 19 | **57.13** | (3.72) |

The financial statements are to be read in conjunction with notes from pages 8 to 26.

The independent auditor's report is on page 3.

**WALAZI ESTATE COMPANY LIMITED**
**ATEMENT OF CHANGES IN EQUITY**
**the year ended 31 December 2012**
***housands of Malawi Kwacha***

| | Share Capital | Share Premium | Plantation Fair value reserve | Property Revaluation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|---|
| **ance as at 1 January 2011** | 33,984 | 10,947 | 1,223,333 | 603,144 | 566,570 | 2,437,978 |
| s for the year | - | - | - | - | (126,430) | (126,430) |
| **er comprehensive income** | | | | | | |
| aluation reserve transfer | - | - | - | (3,998) | - | (3,998) |
| erred tax thereon | - | - | - | 1,199 - | 1,199 | |
| aluation reserve transfer | - | - | - | (49,808) | 49,808 | - |
| erred tax thereon | - | - | - | 14,943 | (14,943) | - |
| lized gain and disposal of assets | - | - | - | (720) | 720 | - |
| tations fair value reserve transfer | - | - | (16,645) | - | 16,645 | - |
| **al other comprehensive income for the year** | - | - | (16,645) | (38,384) | 52,230 | (2,799) |
| **al comprehensive income for the year** | - | - | (16,645) | (38,384) | (74,200) | (129,229) |
| **ance at 31 December 2011** | 33,984 | 10,947 | 1,206,688 | 564,760 | 492,370 | 2,308,749 |
| **ance as at 1 January 2012** | **33,984** | **10,947** | **1,206,688** | **564,760** | **492,370** | **2,308,749** |
| s for the year | - | - | - | - | **1,941,337** | **1,941,337** |
| **er comprehensive income** | | | | | | |
| aluation reserve transfer | - | - | - | **(37,403)** | **37,403** | - |
| erred tax thereon | - | - | - | **11,221** | **(11,221)** | - |
| lized gain and disposal of assets | - | - | - | | | - |
| tations fair value reserve transfer | - | - | **1,910,333** | - | **(1,910,333)** | - |
| **al other comprehensive income for the year** | - | - | **1,910,333** | **(26,182)** | **(1,884,151)** | - |
| **al comprehensive income for the year** | - | - | **1,910,333** | **(26,182)** | **57,186** | **1,941,337** |
| **ance at 31 December 2012** | **33,984** | **10,947** | **3,117,021** | **538,578** | **549,556** | **4,250,086** |

financial statements are to be read in conjunction with notes from pages 8 to 26.

independent auditor's report is on page 3.

**KAWALAZI ESTATE COMPANY LIMITED**

**STATEMENT OF CASH FLOWS**
**for the year ended 31 December 2012**
***In thousands of Malawi Kwacha***

| | Note | 2012 | 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Profit/(loss) before income tax** | | **2,758,002** | (153,864) |
| | | | |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 4 | **65,346** | 75,486 |
| Fair value adjustment | 15 | **(2,729,047)** | 23,779 |
| Net finance cost | 17 | **39,018** | 10,846 |
| | | | |
| **Results from operating activities before changes in working capital** | | **133,319** | (43,753) |
| | | | |
| Tax paid | | **(14,400)** | (8,000) |
| Change in receivables | | **(189,134)** | (34,267) |
| Change in payables | | **230,245** | 91,471 |
| Change in inventories and future crop expenditure | | **(277,526)** | (107,217) |
| Change in net amount due from related parties | | **14,318** | 41,455 |
| | | | |
| **Net cash used in operating activities** | | **(103,178)** | (60,311) |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 4 | **(44,007)** | (17,659) |
| Development expenditure | 5 | **(14,404)** | (13,032) |
| Interest received | | **4,613** | 5,164 |
| Proceeds on disposal of property, plant and equipment | | **-** | 1,220 |
| | | | |
| **Net cash used in investing activities** | | **(53,798)** | (24,307) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Interest paid | 17 | **(43,631)** | (16,010) |
| | | | |
| **Net cash used in financing activities** | | **(43,631)** | (16,010) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(200,607)** | (100,628) |
| | | | |
| Cash and cash equivalents at beginning of the year | | **(240,421)** | (139,793) |
| | | | |
| **Cash and cash equivalents at the end of the year** | 10 | **(441,028)** | (240,421) |
| | | | |
| **Additional statutory information** | | | |
| Increase/(decrease) in net working capital | | **118,732** | (176,687) |

The financial statements are to be read in conjunction with notes from pages 8 to 26.

The independent auditor's report is on page 3.

## 1 REPORTING ENTITY

Kawalazi Estate Company Limited is a company domiciled in Malawi. The main business of the company, which is incorporated in Malawi under the Companies Act, 1984, is the cultivation, processing and sale of tea and macadamia nuts. The address of its registered office is Kawalazi Estate, P.O. Box 237, Mzuzu, Malawi and the company registration number is 2135.

## 2 BASIS OF PREPARATION

**(i) Statement of compliance**

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the requirements of Malawi Companies Act.

**(ii) Basis of preparation**

The financial statements have been prepared on the historical cost basis.

**(iii) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 4 – determination of residual values and economic useful life for property, plant and equipment.
Note 5 – determination of fair values of biological assets (Plantations).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

**(iv) Functional and presentation currency**

These financial statements are prepared in Malawi Kwacha, which is the company's functional currency. All financial information presented in Malawi Kwacha has been rounded to the nearest thousand.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### i) Property, plant and equipment

*a. Recognitional and measurement*

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed asset includes the cost of materials and direct labour, any other cost direct attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs related to the acquisition or condition of qualifying assets are recognized in profit or loss as incurred.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gain and loss on disposals of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognized net within other income in profit or loss.

*b. Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognized in the profit and loss as incurred.

*c. Depreciation*

Property, plant and equipment are depreciated on the straight line basis at rate estimated to reduce to anticipated residual values over expected useful lives as follows:

| | |
|---|---|
| Motor vehicles | 3-5 years |
| Agricultural equipment | 4-14 years |
| Furniture and fittings | 3-7 years |
| Plant and machinery | 4-25 years |

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ii) Income tax

Income tax expense is the aggregate amount of income tax payable in respect of the taxable income for the period and deferred tax. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income (deferred tax on revaluations).

*a) Current tax*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*b) Deferred tax*

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### iii) Trade and other receivables

Trade and other receivables are stated at amortized cost.

### iv) Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

### v) Foreign currency

***Foreign currency transactions***

Transactions in foreign currencies are translated into Malawi Kwacha at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Malawi Kwacha at the exchange at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Malawi Kwacha at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Foreign currency assets and liabilities are translated in Malawi Kwacha at the approximate rate of exchange ruling at the reporting date and the resulting gains or losses are taken to profit or loss.

### vi) Trade and other payables

Trade and other payables are stated at amortised cost.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (vii) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs incurred in bringing them to their existing location and condition. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (viii) Biological assets

In line with IAS41, Agriculture, paragraph 12, benchmark treatment, biological assets have been accounted for at fair value less point of sale costs.

The fair value has been arrived at by using discounted cash flow method.

It is assumed that the inflation rate relevant to sales proceeds will not be less than local cost inflation. For the year under review, an average inflation rate of 20% is estimated as applicable to both pre-tax cash inflows and outflows over the period of the cash flows. In line with the prevailing US Dollar interest rates on the local market, 10% has been utilized to discount the US Dollar net cash flows.

Crop yields have been estimated based on the age of plants in the fields and the average yields obtained in the immediate past.

The period covered by the cash flows reflects the average lives of the crops which are 36 and 65 years for macadamia and tea respectively.

In determining the crop prices, the company has considered recent prices. These are an average over the past three years where there are stable market conditions and a bias towards current prices where the market conditions are unstable. It is assumed these prices will remain constant over the period of the cash flows. No attempt has been made to forecast future prices.

In computing cash out flows, the company has used average costs over recent years where operating conditions were stable, and a bias towards more recent costs where operating conditions were unstable. As with crop prices, it is assumed these prices will remain constant over the period of the cash flows. No attempt has been made to forecast future costs.

Where the discounted cash flow results in negative cash flows, the relevant biological asset has been assigned a nominal value.

### (viv) Future crop expenditure

All direct field maintenance costs incurred from July to December relating to macadamia whose benefits will be realized in the next financial year are deferred.

### (ix) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances as at the year end. For the purposes of the statement of cash flows these include bank overdrafts.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Impairment

#### a) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

#### b) Non financial assets

The carrying amounts of the company's non financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated 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.

### (xi) Earnings per share

Earnings per share are calculated by dividing profit/ (loss) after taxation and preference dividend by the weighted average number of ordinary shares in issue during the year.

### (xii) Financial instruments

The company recognizes financial assets or financial liabilities when, and only when, it becomes a party to the contractual provisions of the instruments. When financial assets or financial liabilities are recognized initially, the company measures them at their value plus, in the case of financial assets or financial liabilities not at fair value through profit and loss transactions costs that are attributable to the acquisition or issue of the financial assets or financial liabilities. After initial recognition the company measures financial assets, including derivatives that are assets at their fair values, without any deduction for transaction costs it may incur on the sale or other disposal, except for the following assets: loans and receivables which are measured at amortized cost using the effective interest method; held to maturity investments which are measured at amortized cost using the effective interest method; investments in equity instruments that do not have quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (xiii) Revenue

Income represents the invoiced value of goods and services provided in the normal course of business, net of discounts and sales related taxes. Income is measured at fair value of the consideration received and income is recognized when goods are delivered and title has passed.

### (xiv) Finance income

Interest income is recognized on a time proportion basis using effective interest method.
Interest expense represents interest charges on inter company loan account.

### (xv) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk.

#### (a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and short-term deposits.

#### (1) Trade and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company's credit customer base, including the default risk based on the business experience, has less of an influence on credit risk. Therefore, there is no concentration of credit risk.

The company has a credit policy under which each new customer is analysed individually for creditworthiness before the company's standard payment and delivery terms and conditions are offered.

The company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from management; these limits are reviewed annually. Customers that fail to meet the company's benchmark creditworthiness transact with the company only on a prepayment cash basis.

#### (2) Short-term deposits

The company limits its exposure to credit risk by depositing its excess cash only with reputable established commercial banks and discount houses accredited by the Reserve Bank of Malawi. Considering their high credit ratings and Reserve Bank close monitoring of these financial institutions, management does not expect any institution to fail to meet its obligations.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (xv) Financial risk management (continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments.

The company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

#### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### (1) Foreign currency risk

The company is exposed to currency risk on sales purchases and borrowings that are denominated in a currency other than the functional currency of company. The currencies in which these transactions primarily are denominated are USD and ZAR in respect of other monetary assets and liabilities denominated in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

##### (2) Interest rate risk

The company's income and operating cash flows are substantially independent of changes in the market interest rates. The company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

##### (3) Price risk

As the company has no significant publicly-traded equity and commodity securities, the company's income and operating cash flows are substantially independent of the changes in market security prices.

**(xvi) New standards and interpretations not yet adopted**

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

a) IFRS 9 *Financial Instruments - Classification and Measurement* (effective for annual periods beginning on or after 1 January 2015 – mandatory application date amended December 2011).

b) IFRS 9 *Financial Instruments* – Accounting for financial liabilities and derecognition (effective for annual periods beginning on or after 1 January 2015 – mandatory application date amended December 2011).

c) IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning or after 1 January 2013)

d) IFRS 11 *Joint Venture Arrangements* (effective for annual periods beginning or after 1 January 2013)

e) IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning or after 1 January 2013)

f) IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).

g) IAS 19 *Employee Benefits* – Amended Standard resulting from Post-Employment Benefits and Termination Benefits projects (effective for annual periods beginning on or after 1 January 2013).

h) IAS 32 *Financial Instruments: Presentation* - Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

The company is currently in the process of evaluating the potential effect of these standards on the company's financial statements once they become effective.

**TES TO THE FINANCIAL STATEMENTS**
**the year ended 31 December 2012**
***housands of Malawi Kwacha***

**Property, plant and equipment**

| r ended 31 December 2012 | Land | Buildings & construction | Plant & equipment | Agricultural equipment | Motor vehicles | Furniture & fittings | Total |
|---|---|---|---|---|---|---|---|
| **t / valuation** | | | | | | | |
| beginning of the year | 153,047 | 439,836 | 354,782 | 75,499 | 69,787 | 51,953 | 1,144,904 |
| litions | - | 13,749 | 11,179 | 17,254 | - | 1,825 | 44,007 |
| **end of the year** | 153,047 | 453,585 | 365,961 | 92,753 | 69,787 | 53,778 | 1,188,911 |
| **reciation** | | | | | | | |
| beginning of the year | - | 15,035 | 23,200 | 9,510 | 24,502 | 3,239 | 75,486 |
| rge for the year | - | 15,035 | 23,817 | 15,811 | 7,748 | 2,935 | 65,346 |
| end of the year | - | 30,070 | 47,017 | 25,321 | 32,250 | 6,174 | 140,832 |
| **rying amount at end of year** | 153,047 | 423,515 | 318,944 | 67,432 | 37,537 | 47,604 | 1,048,079 |

register of land and buildings is available for inspection at the registered office of the company. Property, plant and equipment were revalued on an n market value basis in 2010 by CB Richards Ellis Botswana and the revaluations were incorporated into the books as at 31 December 2010.

**Property, plant and equipment (Continued)**

| Year ended 31 December 2011 | Land | Buildings & construction | Plant & equipment | Agricultural equipment | Motor vehicles | Furniture & fittings | Capital WIP | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost / valuation** | | | | | | | | |
| At beginning of the year | 153,047 | 439,836 | 354,782 | 59,865 | 73,527 | 51,406 | - | 1,132,463 |
| Additions | - | - | - | 17,112 | - | 547 | - | 17,659 |
| Revaluations | - | - | - | (978) | (3,020) | - | - | (3,998) |
| Disposals | - | - | - | (500) | (720) | - | - | (1,220) |
| **At end of the year** | 153,047 | 439,836 | 354,782 | 75,499 | 69,787 | 51,953 | - | 1,144,904 |
| **Depreciation** | | | | | | | | |
| Charge for the year | - | 15,035 | 23,200 | 9,510 | 24,502 | 3,239 | - | 75,486 |
| Carrying amount at end of year | 153,047 | 424,801 | 331,582 | 65,989 | 45,285 | 48,714 | - | 1,069,418 |

*In thousands of Malawi Kwacha*

## 5 Plantations

| | Forestry | Tea | Macadamia | Total |
|---|---|---|---|---|
| **2012** | | | | |
| **Matured plantations** | | | | |
| At beginning of the year | 94,631 | 1,685,903 | - | 1,780,534 |
| Fair value adjustment | 87,512 | 1,877,820 | 608,319 | 2,573,651 |
| At end of the 2012 | 182,143 | 3,563,723 | 608,319 | 4,354,185 |
| **Immature plantations** | | | | |
| At beginning of the year | - | 115,707 | - | 115,707 |
| Addition | - | 4,133 | 10,272 | 14,405 |
| Fair value adjustment | - | 100,831 | 54,567 | 155,398 |
| At end of the 2012 | - | 220,671 | 64,839 | 285,510 |
| **Carrying amount at end of 2012** | 182,143 | 3,784,394 | 673,158 | 4,639,695 |
| **2011** | | | | |
| **Matured plantations** | | | | |
| At beginning of the year | 84,135 | 1,744,122 | (8,754) | 1,819,503 |
| Fair value adjustment | 10,496 | (58,219) | 8,754 | ( 38,969) |
| At end of the 2011 | 94,631 | 1,685,903 | - | 1,780,534 |
| **Immature plantations** | | | | |
| At beginning of the year | 3,012 | 75,702 | 8,772 | 87,486 |
| Addition | 3,586 | 3,583 | 5,863 | 13,032 |
| Fair value adjustment | (6,598) | 36,422 | (14,635) | 15,189 |
| At end of the 2011 | - | 115,707 | - | 115,707 |
| **Carrying amount at end of 2011** | 94,631 | 1,801,610 | - | 1,896,241 |

The initial valuation exercise was done by CB Richard Ellis Botswana, qualified valuers on 31st December 2010.

The fair value has been arrived at by using discounted cash flow method.

It is assumed that the inflation rate relevant to sales proceeds will not be less than local cost inflation. For the year under review, an average inflation rate of 20% is estimated as applicable to both pre-tax cash inflows and outflows over the period of the cash flows. In line with the prevailing US Dollar interest rates on the local market, 10% has been utilized to discount the US Dollar net cash flows.

Crop yields have been estimated based on the age of plants in the fields and the average yields obtained in the immediate past.

The period covered by the cash flows reflects the average lives of the crops which are 36 and 65 years for macadamia and tea respectively.

*In thousands of Malawi Kwacha*

| | | 2012 | 2011 |
|---|---|---|---|
| 6 | **Future crop expenditure** | | |
| | At beginning of the year | 32,962 | 15,926 |
| | Plantation enhancement costs | 47,316 | 32,962 |
| | Transfer to stock on harvest | (32,962) | (15,926) |
| | At end of the year | 47,316 | 32,962 |
| | Hectorage covered at the year end | | |
| | Mature | 905 | 843 |
| | Immature | 113 | 175 |
| | | 1,018 | 1,018 |
| | **Total tonnage harvested** | | |
| | During the year ended 31 December | 2,761 | 1,370 |
| | Sales proceeds net of point of sale costs | 428,496 | 92,771 |

Plantation enhancement costs include all direct costs incurred in respect of crops, which will be harvested in subsequent financial year.

| | | 2012 | 2011 |
|---|---|---|---|
| 7 | **Inventories** | | |
| | Produce inventories | 68,707 | 53,822 |
| | Consumable stores | 265,398 | 140,842 |
| | Goods in transit | 167,267 | 50,588 |
| | Nurseries | 9,865 | 2,813 |
| | | 511,237 | 248,065 |
| 8 | **Trade and other receivables** | | |
| | Trade receivables | 164,763 | 10,390 |
| | Other receivables | 138,073 | 103,312 |
| | | 302,836 | 113,702 |

The average credit period on sales of goods is 90 days. No interest is charged on the trade receivables. Trade receivables comprise amounts due from the Limbe and Mombasa auction and private buyers. Receivables are spread evenly across the debtors. Any new private buyers are vetted by the parent company in London before they are accepted.

| | 2012 | 2011 |
|---|---|---|
| Ageing of due but not impaired | | |
| 60 – 90 days | 272,348 | 18,051 |
| 90 – 120 days | 30,488 | 95,651 |
| | 302,836 | 113,702 |

*In thousands of Malawi Kwacha*

| | 2012 | 2011 |
|---|---|---|
| **9 Related parties** | **2012** | 2011 |
| The following transactions were carried out with related parties: | | |
| **Sales** | | |
| Global Tea and Commodities Limited (London) | **444,436** | 140,719 |
| Global Tea and Commodities Limited (Kenya) | **22,250** | 10,519 |
| Global Tea and Commodities Limited (Malawi-UK) | **55,019** | 29,975 |
| Tea Brokers Central Africa Limited | **140,496** | 117,425 |
| Gold Crown Foods (EPZ) Limited | - | 17,486 |
| | **662,201** | 316,124 |
| **Purchases** | | |
| Fees and interest payable : | | |
| Management fees based on profit before tax | **100,405** | - |
| Management fees fixed - from Global Tea & commodities Limited | **15,327** | 4,994 |
| Management fees fixed - from Dhunseri Petrochem Private Limited | **10,630** | - |
| | **126,362** | 4,994 |
| **Payables** | | |
| Global Tea and Commodities (Kenya) Limited – Current account | - | 45,170 |
| Global Tea and Commodities Limited – Variable Management Fees | - | 22,872 |
| Global Tea and Commodities Limited – Fixed Management Fees | - | - |
| Global Tea and Commodities Limited – Current account - | - | 95,688 |
| Global Tea and Commodities Limited –Malawi Limited | **5,180** | 17,684 |
| Tea Brokers Central Africa (TBCA) – Trade | **16,850** | - |
| Makandi Tea and Coffee Estates Limited | - | 76,995 |
| | **22,030** | 258,409 |

The average credit period on sales of goods is 90 days. No interest is charged on the trade payables.

| | 2012 | 2011 |
|---|---|---|
| ***Related party receivables:*** | | |
| Global Tea and Commodities Malawi Limited (London) - Trade | - | 121,595 |
| Sable Farming Company Limited: | | |
| Loan receivable - current | - | 102,270 |
| Loan receivable - non current | - | 88,032 |
| Sable Farming Company Limited – current account | - | 6,959 |
| Makandi Tea and Coffee Estates Ltd - Trade | **177,492** | - |
| Global Tea and Commodities Malawi– Trade | - | 29,211 |
| Global Tea and Commodities (Kenya) Limited – Trade | - | 47,109 |
| Tea Brokers Central Africa (TBCA) - Trade | - | 14,026 |
| Gold Crown Foods EPZ - Trade | - | 18,988 |
| | **177,492** | 428,190 |

The average credit period on sales of goods is 90 days. No interest is charged on the trade receivables.

| | 2012 | 2011 |
|---|---|---|
| Ageing of past due but not impaired | | |
| 60 – 90 days | **177,492** | 27,463 |
| 90 – 120 days | - | 312,695 |
| | **177,492** | 340,158 |
| Over 365 days | - | 88,032 |
| | **177,492** | 428,190 |

Current account transactions with related parties take place on regular basis.
There is no credit limit and no interest charges are made on the current accounts with related parties.

*In thousands of Malawi Kwacha*

## 10. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| NBM – Great Britain Pounds | **15,317** | 6,896 |
| NBM – Malawi Kwacha | **3,326** | - |
| Petty cash – Malawi Kwacha | **100** | 100 |
| Petty cash – Foreign | **302** | 72 |
| Gratuity Fixed deposit – National Bank of Malawi Limited | **9,275** | 6,363 |
| Gratuity – National Bank of Malawi Limited | **(122)** | 33 |
| | **28,198** | 13,464 |
| **Overdrafts** | | |
| National Bank of Malawi – United States Dollar | **(469,226)** | (253,885) |
| Cash and cash equivalents as shown in the statement of cash flows | **(441,028)** | (240,421) |

The company has an overdraft facility of USD 1.5 million, and inner overdraft facility of MK25 million and a guarantee facility of K4 million in favour of Malawi Revenue Authority. In addition the company has a medium term loan facility of USD 0.5 million and a long term loan of USD 2.0 million. The medium term loan is repayable over four years and long term loan over seven years. Both these loans have a moratorium on capital repayment during the first year. The overdraft and loan facilities were obtained from the National Bank of Malawi and the security is a USD 1.0 million debenture over the company assets with the requirement to create an additional debenture as and when requested by National Bank of Malawi.

## 11. Employee benefits liabilities

| | Severance | Pension (Current) | Pension (Non-Current) | Total |
|---|---|---|---|---|
| At the beginning of the year | - | 11,064 | 18,030 | **29,094** |
| Transfer to pension | - | - | - | - |
| Transfer to gratuity | - | - | - | - |
| Movement to profit and loss | 5,997 | - | (5,186) | **811** |
| Payment in the year | - | (11,064) | - | **(11,064)** |
| **At the end of the year** | **5,997** | - | **12,844** | **18,841** |

The Pension Fund is a defined contribution arrangement. Under this arrangement, employer's liability is limited to the pension contributions.

*The Pensions Act 2010 and the employment (Amendment) Act*

The legislation giving rise to the requirement to provide for severance pay, the Pensions Act 2010 and the employment (Amendment) Act were enacted by Parliament and became effect on 1 June 2011.

The principal change in the legislation is the removal of the provision requiring employers to accrue for severance pay relating to future retirement costs. The legislation has, instead, introduced an obligation on the part of employers to ensure that employers are covered by registered pension funds.

## 12 Trade and other payables

| | 2012 | 2011 |
|---|---|---|
| Trade payables | **215,993** | 101,510 |
| Other payables | **194,107** | 68,090 |
| | **410,100** | 169,600 |

The average credit period on purchases of goods is 90 days. No interest is charged on the trade payables. The directors consider that the carrying value of the payables approximates their fair value.

## NOTES TO THE FINANCIAL STATEMENTS
**for the year ended 31 December 2012**
*In thousands of Malawi Kwacha*

| | | 2012 | 2011 |
|---|---|---|---|
| **13** | **Turnover** | | |
| | Tea | 1,165,923 | 666,678 |
| | Macadamia | 428,496 | 99,680 |
| | | 1,594,418 | 766,358 |
| **14** | **Exchange (loss)/gain** | | |
| | Realised exchange loss | (158,398) | (16,807) |
| | Unrealised exchange gain | 146,687 | 23,549 |
| | | (11,711) | 6,742 |
| **15** | **Fair value adjustment to biological assets** | | |
| | Tea | 1,978,565 | (21,797) |
| | Macadamia | 662,886 | (5,880) |
| | Forestry | 87,596 | 3,898 |
| | | 2,729,047 | (23,779) |
| **16** | **Administrative expenses** | | |
| | Audit fees | 8,319 | 4,673 |
| | Bank charges | 3,191 | 8,538 |
| | Clinics | 16,498 | 12,994 |
| | Communication | 11,585 | 8,594 |
| | Depreciation | 65,347 | 75,486 |
| | Entertainment costs | 1,926 | 1,067 |
| | Group recharges | 22,973 | 18,585 |
| | Insurance | 13,043 | 10,129 |
| | Land rent | 28,609 | 8,200 |
| | Legal and professional fees | 448 | 3,510 |
| | Directors expenses | 990 | - |
| | Management fees – Global Tea & Commodities limited | 15,327 | 4,994 |
| | Management fees – Dhunseri Petrochem Pvte Limited | 111,035 | - |
| | Office and stores costs | 8,110 | 4,006 |
| | Personnel expenses | 2,396 | 4,701 |
| | Salaries and related costs | 62,855 | 61,976 |
| | Security costs | 40,950 | 22,818 |
| | Stock write-offs | 4,352 | 4,418 |
| | Subscriptions and donations | 12,304 | 13,429 |
| | Sundry expenses | 50 | 143 |
| | Technical fees | 22,966 | 12,296 |
| | Travel and transport | 25,928 | 11,778 |
| | Sundry income | (8,641) | (5,221) |
| | | 470,561 | 287,114 |
| **17** | **Finance costs** | | |
| | Interest paid | 43,631 | 16,010 |
| | Interest received | (4,613) | (5,164) |
| | | 39,018 | 10,846 |
| **18** | **Income tax expense** | | |
| | Current income tax (Minimum Tax on turnover from 01 January 2012) | - | (13,333) |
| | Deferred income tax (charge)/ credit | (816,665) | 40,767 |
| | | (816,665) | 27,434 |

The company has tax losses carried forward for the current financial year **MK130,667,635** (2011: MK32,444,271 ).

*In Thousands of Malawi Kwacha*

## 18 Income tax expense (Continued)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Deferred tax** | | | | |
| Balance as at 1 January | | 799,546 | | 841,512 |
| Revaluation reserve | | - | | (1,199) |
| Movement to profit or loss | | 816,665 | | (40,767) |
| | | 1,616,211 | | 799,546 |
| **Reconciliation of tax expense with accounting income** | | | | |
| Profit/(loss) before income tax | Rates | 2,870,142 | Rates | (153,864) |
| Income tax using the domestic corporate tax rate | 30% | 827,401 | (30)% | (46,159) |
| Non deductible expenses | 1% | 31,332 | 34% | 52,826 |
| Deductible expenses | (1)% | (17,739) | (13)% | (19,387) |
| Other temporary differences | 1% | (24,329) | (18)% | (28,047) |
| | 31% | 816,665 | (26)% | (40,767) |

## 19 Earnings per share

Basic and diluted earnings per share is calculated by dividing profit attributable to ordinary share holders by the weighted average number of ordinary shares outstanding during the year.

| | 2012 | 2011 |
|---|---|---|
| Profit/(loss) for the year attributable to ordinary shareholders after preference dividend | 1,941,337 | (126,430) |
| Weighted average number of ordinary shares outstanding during the year | 33,984 | 33,984 |
| Basic and diluted earnings per share (MK) | 57.13 | (3.72) |

## 20 Share capital

| | 2012 | 2011 |
|---|---|---|
| Authorised | | |
| 60,000,000 Ordinary shares of K1 each | 60,000 | 60,000 |
| Issued and fully paid | | |
| 33,984,000 Ordinary shares of K1 each | 33,984 | 33,984 |

The entire shareholding and control of the company changed from Global Tea & Commodities Limited of United Kingdom to Dhunseri Petrochem & Tea Pte Limited of Singapore, a subsidiary of Dhunseri Petrochem & Tea Limited of India on 1st September 2012.

## 21 Plantations fair value reserve

| | 2012 | 2011 |
|---|---|---|
| Forestry | 56,535 | 5,301 |
| Tea | 2,640,446 | 1,252,558 |
| Macadamia | 420,038 | (51,171) |
| | 3,117,019 | 1,206,688 |

## 22 Property revaluation reserve

| | 2012 | 2011 |
|---|---|---|
| Leasehold land | 125,972 | 125,973 |
| Buildings and construction | 251,085 | 261,075 |
| Plant and equipment | 140,645 | 150,804 |
| Agricultural equipment | (2,599) | 2,568 |
| Motor vehicles | (3,626) | (4,244) |
| Furniture and fittings | 27,101 | 28,584 |
| | 538,578 | 564,760 |

*In Thousands of Malawi Kwacha*

## 23 FINANCIAL INSTRUMENTS

Exposure to credit, foreign exchange and interest rate risks arise in the normal course of the company's business.

**Credit risk**

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company has policies in place to ensure that sales of products and services are made to customers with appropriate credit history.

The normal terms of contracts are that clients pay one month or a year in advance, thereby reducing credit risk.

**Exposure of credit risk**

**Maximum exposure to credit risk without taking into account any collateral or other credit enhancements**

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IAS 39 *Financial Instruments: Recognition and Measurement* as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

| | Note | 2012 | 2011 |
|---|---|---|---|
| Trade and other receivables | 8 | **302,836** | 113,702 |
| Related party receivables | 9 | **177,492** | 340,158 |
| Cash and cash equivalents | 10 | **28,198** | 13,464 |
| Total recognised financial instruments | | **508,526** | 467,324 |

**Interest rate risk**

The company's income and operating cash flows are substantially independent of changes in the market interest rates. The company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

**Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

*In Thousands of Malawi Kwacha*

## 24 FINANCIAL INSTRUMENTS (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2012 to the contractual maturity date.

| | 1 Months | 1-3 Months | Over 3 months | Total | Carrying amount |
|---|---|---|---|---|---|
| **At 31 December 2012** | | | | | |
| **Liabilities** | | | | | |
| Trade payables | **151,456** | **58,044** | **200,600** | **410,100** | **410,100** |
| Bank overdraft | **469,226** | **-** | **-** | **469,226** | **469,226** |
| | **620,682** | **58,044** | **200,600** | **879,326** | **879,326** |
| **At 31 December 2011** | | | | | |
| **Liabilities** | | | | | |
| Trade payables | - | 169,600 | - | 169,600 | 169,600 |
| Inter group payable | - | - | 258,409 | 258,409 | 258,409 |
| Bank overdraft | 253,885 | - | - | 253,885 | 253,885 |
| | 253,885 | 169,600 | 258,409 | 681,894 | 681,894 |

**Foreign currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in the foreign currency exchange rates. The company holds significant assets and liabilities in foreign currencies in respect of related party balances.

The Company had the following significant foreign currency positions:

| **Thousands of Malawi Kwacha equivalent to** | **2012 USD** | 2011 USD |
|---|---|---|
| **At 31 December 2011** | | |
| **Assets** | | |
| Trade receivable | **489** | 63 |
| Related party receivables | **527** | 1,410 |
| Related party loans | **-** | 1,162 |
| **Total assets** | **1,016** | 2,635 |
| **Liabilities** | | |
| Related party payables | **-** | 1,604 |
| Bank overdraft | **1,392** | 1,458 |
| **Total liabilities** | **1,392** | 3,062 |
| **Net balance open position** | **(376)** | (427) |

*In thousands of Malawi Kwacha*

## 25 Contingent liabilities

The company is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defense against the actions is unsuccessful, then the company would pay MK7.5 million (2011:MK5.5million) including legal costs. Based on legal advice, the directors are of the opinion that the outcome of the action may not have material effect on the company's financial statements.

## 26 Exchange Rates

The average of the year end buying and selling rates of the foreign currencies most affecting the performance and state of affairs of the company is stated below, together with the National Consumer Price Index for the year, which represents an official measure of inflation.

| | At date of signing | 2012 | 2011 |
|---|---|---|---|
| Kwacha/US Dollar | 382.00 | **337.00** | 163.75 |
| Kwacha/GB Pound | 630.00 | **560.60** | 252.18 |
| Inflation rate (%) | 35.10 | 34.60 | 8.90 |

## 27 Subsequent events

There are no significant events that have occurred after the reporting date requiring adjustments or disclosures in the financial statements.