

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2015**

## MAKANDI TEA AND COFFEE ESTATES LIMITED

The Company is incorporated in Malawi and is a subsidiary of Dhunseri Petrochem and Tea Pte Limited. The main business of the Company is the growing, processing and selling of tea and macadamia.

### 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
S. Latif	Director	Full year
P. Singh	Director	Full year
S. Hara	Director	Full year
S. Singh	Director	Full year
R. Sharma	Director	Full year

### COMPANY SECRETARY

S.J. Hara

### REGISTERED OFFICE

Tunga Estate, P O Box 5598, Limbe  
company registration number 2868.

### AUDITOR

PricewaterhouseCoopers Certified Public Accountants  
Hannover House  
Corner Independence Drive and Hannover Street  
P O Box 1147  
Blantyre

### LEGAL ADVISOR

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

### BANKERS

National Bank of Malawi  
Standard Bank Limited

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The financial statements are expressed in Malawi Kwacha ("K").

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

The Directors are responsible for the preparation and fair presentation of the annual financial statements of Makandi Tea and Coffee Estates Limited, comprising the statement of financial position as at 31 December 2015, and the statements of comprehensive income, changes in equity and cashflows for the year ended and 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 Malawi Companies Act, (Chapter 46:03).

The Malawi Companies Act (Chapter 46:03) requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

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 the company will continue in business.

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

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

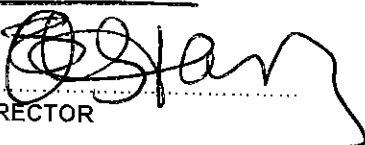
The directors have made an assessment of the Company's ability to continue as a going concern and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, at least in the next twelve months from this date. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

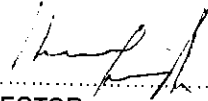
The auditor is responsible for reporting on whether the annual financial statements are fairly presented in all material respects in accordance with International Financial Reporting Standard.

**Approval of the financial statements**

The financial statements of the Company were approved by the board of directors on 16<sup>th</sup> May 2016 and are signed on its behalf by:

Order of the Board

  
.....  
DIRECTOR

  
.....  
DIRECTOR



**INDEPENDENT AUDITOR'S REPORT**

to the shareholders of

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

We have audited the financial statements of Makandi Tea and Coffee Estates Limited which comprise the statement of financial position as of 31 December 2015, and statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information, set out on pages 3 to 31.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, (Chapter 46:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, 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 relevant to the entity's preparation of financial statements that give a true and fair view 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. 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, the financial statements give a true and fair view of the financial position of Makandi Tea and Coffee Estates Limited as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, (Chapter 46:03).

**PricewaterhouseCoopers  
Chartered Accountants (Malawi)**

**Blantyre**

Date: 24 May 2016

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P O Box 1147, Blantyre, Malawi  
T: +265 (0) 1 820 322, F: +265 (0) 1 821 215, www.pwc.com/mw*

A list of directors and partners names is available for inspection at the partnership principal business address above.  
VAT reg.no. 30843660

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015

	Note	2015 K'000	2014 K'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Biological assets	5	10 788 507	8 156 383
Property, plant and equipment	6	4 887 610	5 171 043
		<u>15 676 117</u>	<u>13 327 426</u>
<b>Current assets</b>			
Future crop expenditure			
Inventories	7	70 221	53 026
Trade and other receivables	8	897 400	629 050
Amount from related parties	9	638 122	234 356
Tax recoverable	10	69 847	258 731
Cash and cash equivalents	11	7 206	1 584
		<u>1 682 796</u>	<u>1 199 068</u>
<b>TOTAL ASSETS</b>		<u>17 358 913</u>	<u>14 526 494</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	13 862	13 862
Share premium		120 935	120 935
Revaluation reserve		2 597 925	2 763 727
Plantations fair value reserve		6 897 501	5 355 589
Retained earnings		900 590	986 017
<b>Total equity</b>		<u>10 530 813</u>	<u>9 240 130</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	13	4 435 404	3 747 098
Employee benefits liabilities	14	160 151	58 487
		<u>4 595 555</u>	<u>3 805 585</u>
<b>Current liabilities</b>			
Trade and other payables	15	677 767	437 714
Amounts due to related parties	10	110 902	218 509
Current income tax liabilities		11 976	-
Borrowings	16	1 429 561	822 969
Employee benefits liabilities	14	2 339	1 587
<b>Total current liabilities</b>		<u>2 232 545</u>	<u>1 480 779</u>
<b>Total liabilities</b>		<u>6 828 100</u>	<u>5 286 364</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>17 358 913</u>	<u>14 526 494</u>

The financial statements were approved by the Company's board of directors on 16<sup>th</sup> May 2016 and were signed on its behalf by:

  
DIRECTOR

  
DIRECTOR

## MAKANDI TEA AND COFFEE ESTATES LIMITED

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 K'000	2014 K'000
Revenue	17	3 817 627	3 865 429
Cost of sales	18	<u>( 2 716 738)</u>	<u>( 2 526 447)</u>
<b>Gross profit</b>		<u>1 100 889</u>	<u>1 338 982</u>
Sundry income	19	18 958	21 551
Gain arising from changes in fair values of biological assets	5	2 202 732	4 653 161
Operating and administrative expenses	20	<u>( 1 133 613)</u>	<u>( 918 648)</u>
<b>Operating profit</b>		2 188 966	5 095 046
Finance income	21	458 665	31 656
Finance costs	21	<u>( 649 246)</u>	<u>( 56 845)</u>
<b>Profit before income tax</b>		1 998 385	5 069 857
Income tax expense	22	<u>( 707 702)</u>	<u>( 1 473 955)</u>
<b>Profit for the year</b>		1 290 683	3 595 902
<b>Other comprehensive income</b>			
<i>Items that may subsequently be reclassified to profit or loss</i>		-	-
<i>Items that will not be reclassified to profit or loss</i>			
Fixed assets revaluation		-	3 422 802
Deferred tax on revaluation		-	<u>( 1 026 840)</u>
<b>Total comprehensive income for the year</b>		<u>1 290 683</u>	<u>5 991 864</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital K'000	Share premium K'000	Revaluation reserve K'000	Fair value reserve K'000	Retained earnings K'000	Total K'000
<b>Year ended 31 December 2014</b>						
At 1 January 2014	13 862	120 935	404 891	2 098 377	610 201	3 248 266
<b>Comprehensive income for the year:</b>						
Profit for the year	-	-	-	-	3 595 902	3 595 902
<b>Total other comprehensive income:</b>	-	-	2 358 836	3 257 212	( 3 220 086)	2 395 962
Fixed asset revaluation			3 422 802			3 422 802
Deferred tax on revaluation			( 1 026 840)			( 1 026 840)
Plantations fair value reserve transferred				4 653 160	( 4 653 160)	
Deferred tax on fair value reserve transferred				( 1 395 948)	1 395 948	
Transfer of excess depreciation			( 37 126)		37 126	
<b>Transaction with owners</b>						
Dividend declared	-	-	-	-	-	-
At 31 December 2014	13 862	120 935	2 763 727	5 355 589	986 017	9 240 130
<b>Year ended 31 December 2015</b>						
At 1 January 2015	13 862	120 935	2 763 727	5 355 589	986 017	9 240 130
<b>Comprehensive income for the year:</b>						
Profit for the year	-	-	-	-	1 290 683	1 290 683
<b>Total other comprehensive income:</b>	-	-	( 165 802)	1 541 912	( 1 376 110)	-
Fixed asset revaluation						
Deferred tax on revaluation						
Plantations fair value reserve transferred				2 202 732	( 2 202 732)	
Deferred tax on fair value reserve transferred				( 660 820)	660 820	
Transfer of excess depreciation			( 165 802)		165 802	
<b>Transaction with owners</b>						
Dividend declared	-	-	-	-	-	-
At 31 December 2015	13 862	120 935	2 597 925	6 897 501	900 590	10 530 813

## MAKANDI TEA AND COFFEE ESTATES LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 K'000	2014 K'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax		1 998 385	5 069 857
Adjustments for:			
- Fair value gains on biological assets	5	( 2 202 732)	( 4 653 161)
- Depreciation	6	336 154	159 248
- Interest payable	21	78 042	56 845
- Interest receivable	21	-	( 237)
- Loss on impairment of plant & equipment		-	-
- Unrealized exchange gain		( 17 067)	( 19 533)
- Unrealized exchange losses		29 594	-
Increase in employee benefit obligations		102 416	29 113
<b>Changes in working capital</b>			
Increase in future crop expenditure		( 17 195)	( 32 430)
Increase in inventories		( 268 350)	( 93 019)
Increase in trade and other receivables		( 386 699)	( 51 214)
Decrease/(increase) in amounts due from related parties		182 577	( 201 881)
Increase in trade and other payables		216 766	55 678
(Decrease)/increase in amounts due to related parties		( 107 607)	123 369
<b>Cash generated from operations</b>		( 55 716)	442 635
Interest paid	21	( 78 042)	( 56 845)
Taxation paid		( 5 836)	( 493)
<b>Net cash flows from operating activities</b>		( 139 594)	385 297
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	21	-	237
Purchase of property, plant and equipment	6	( 52 721)	( 237 235)
Development expenditure incurred		( 429 392)	( 288 457)
<b>Net cash flows utilised in investing activities</b>		( 482 113)	( 525 455)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long term loans received		-	210 300
Payment of long term loan		-	( 273 270)
<b>Net cash flows from/(utilised) in financing activities</b>		-	( 62 970)
<b>Net decrease in cash and cash equivalents</b>		( 621 707)	( 203 128)
Cash and cash equivalents at beginning of the year		( 800 648)	( 597 520)
<b>Cash and cash equivalents at end of the year</b>	11	( 1 422 355)	( 800 648)
Movement in working capital as defined by legislation		( 268 038)	29 048
Excess of current assets over current liabilities at the beginning of the year		( 281 711)	( 310 759)
Excess of current assets over current liabilities at the end of the year		( 549 749)	( 281 711)



**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**1 GENERAL INFORMATION**

The Company is incorporated in Malawi and is a subsidiary of Dhunseri Petrochem and Tea Pte Limited which is ultimately owned by Dhunseri Tea & Industries Ltd which owns 100% of the Company.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the International Financial Reporting Interpretations Committee ("IFRS IC") interpretations and the requirements of the Malawi Companies Act, (Chapter 46:03) applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of property plant and equipment and biological assets at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

**2.1.1 Changes in accounting policy and disclosures**

**a) New and amended standards and interpretations, effective for the first time for 31 December 2015 year ends and relevant to the company**

There are no new standards that were effective for the first time for the financial year ended 31 December 2015 that have a material impact on the Company.

**b) New an amended standards and interpretations, effective for the first time for 31 December 2015 year ends and that are not currently relevant to the Company (although they may affect future accounting for future transactions).**

Number	Effective date	Key requirements
Amendments to IAS 19 – Employee benefits; regarding defined benefit plans.	1 July 2014	These narrow scope amendments apply to contributions for employees or third parties to defined plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

**c) New and amended standards and interpretation issued but not effective for 31 December 2015 year ends that are relevant to the Company but have not been early adopted**

Number	Effective date	Key requirements
Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative	1 January 2016	In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.1 Basis of preparation (continued)

## 2.1.1 Changes in accounting policy and disclosures (continued)

c) New and amended standards and interpretation issued but not effective for 31 December 2015 year ends that are relevant to the Company but have not been early adopted (continued)

Number	Effective date	Key requirements
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation	1 January 2016	In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants	1 January 2016	In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant to include examples of non-bearer plants and remove current examples of bearer plants from IAS 41.
IFRS 15 - Revenue from contracts with customers	1 January 2017	The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or service transfers to a customer.
IFRS 9 – Financial Instruments (2009 and 2010) - - Financial liabilities - Derecognition of financial instruments - Financial assets - General hedge accounting	1 January 2018	<p>This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurements of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.</p> <p>The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.</p>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.1 Basis of preparation (continued)

## 2.1.1 Changes in accounting policy and disclosures (continued)

d) New and amended standards and interpretations issue but not effective for 31 December 2015 year ended and are not relevant to the Company

Number	Effective date	Key requirements
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets	1 January 2016	The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption	1 January 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation.	1 January 2016	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
IFRS 14 – Regulatory deferral accounts	1 January 2016	The IASB has issued IFRS 14, 'Regulatory deferral accounts' specific to first time adopters ('IFRS 14'), an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts').  Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body.
Amendments to IAS 27, 'Separate financial statements' on equity accounting	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
Amendment to IFRS 9 'Financial instruments', on general hedge accounting	1 January 2018	The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.  Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following: <ul style="list-style-type: none"> <li>- The own credit risk requirements for financial liabilities.</li> <li>- Classification and measurement (C&amp;M) requirements for financial assets.</li> <li>- C&amp;M requirements for financial assets and financial liabilities.</li> <li>- The full current version of IFRS 9 (that is, C&amp;M requirements for financial assets and financial liabilities and hedge accounting).</li> </ul>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.1 Basis of preparation (continued)

## 2.1.1 Changes in accounting policy and disclosures (continued)

## (e) Improvements to IFRS

## Annual improvements 2012, issued December 2013

The following improvements to IFRS were issued by the IASB as part of the 'annual improvements process' resulting in amendments to standards issued, but not effective for the first time for 31 December 2014 year ends. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards.

Number	Effective date	Key requirements
Annual improvements 2012	1 July 2014	<ul style="list-style-type: none"> <li>• IFRS 2, 'Share-based payment'</li> <li>• IFRS 3, 'Business combinations'</li> <li>• IFRS 8, 'Operating segments'</li> <li>• IFRS 13, 'Fair value measurement'</li> <li>• IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'</li> <li>• IAS 24, 'Related party disclosures'</li> </ul>

## Annual improvements 2013, issued December 2013

The IASB published final standard for the 2011 -2013 cycle of the annual improvements with amendments that affected 4 standards issued, but not effective for the first time for 31 December 2014 year ends.

Annual improvements	Effective date	IFRS
Annual improvements 2013	1 July 2014	<ul style="list-style-type: none"> <li>• IFRS 1, 'First time adoption'</li> <li>• IFRS 3, 'Business combinations'</li> <li>• IFRS 13, 'Fair value measurement' and</li> <li>• IAS 40, 'Investment property'</li> </ul>

The IASB issued annual improvements to IFRSs 2012 - 2014 Cycle, which contains five amendments to four standards, excluding inconsequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2016.

Annual improvements	Effective date	IFRS
Annual improvements 2014	1 January 2016	<ul style="list-style-type: none"> <li>• IFRS 5, 'Non-current assets held for sale and discontinued operations'</li> <li>• IFRS 7, 'Financial instruments: Disclosures'</li> <li>• IAS 19, 'Employee benefits'</li> <li>• IAS 34, 'Interim financial reporting'</li> </ul>

Annual improvements contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. Improvements to IFRS comprise amendments that result in accounting changes for presentation, recognition or measurements purposes, as well as terminology amendments related to a variety of individual IFRS standards

There are no other standards, amendments and interpretations that are not yet effective that are likely to have a material impact on the Company.

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2.3 Foreign currency translation**

**a) Functional and presentation currency**

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

**b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relates to borrowings and cash and cash equivalents are presented in the income statement within finance income or costs. All other foreign exchange gains or losses are presented in the income statement within other income.

**2.4 Biological assets**

Biological assets comprise of tea, macadamia and timber plantations. Tea, macadamia and timber plantations on hand are measured at their fair value less estimated point of sale costs. The fair value of plantations is determined based on the present value of expected net cash flows from the plantations 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, exchange movements and price movements reduced with cost increases expected. Fair value adjustment are included in the income Statement. The Company transfers fair value gains from retained earnings to a fair value reserve within equity.

**2.5 Property, plant and equipment**

Land and buildings comprise mainly factories, retail outlets and offices. All 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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and net amount is restated to the revalued amount of the asset. At initial recognition all items of property plant and equipment are recorded at Historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Company 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 the income statement during the financial period in which they are incurred.

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:

Building	10 to 25 years
Plant & Machinery	3 to 10 years
Motor vehicles	2 to 10 years
Furniture and equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, it is Company policy to transfer any amounts included in revaluation reserves in respect of those assets to retained earnings

**2.6 Future crop expenditure**

The Company'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.

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.7 Impairment of non-financial assets**

Assets that have an indefinite useful life-are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in reversal of the impairment at each reporting date.

**2.8 Financial assets**

**2.8.1 Classification**

The Company classifies its financial assets in the loans and receivables category. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, amounts due to related parties and cash and cash equivalents in the statement of financial position.

**2.8.2 Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method less allowance for impairment.

**2.8.3 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or counterparty.

**2.9 Impairment of financial assets**

**Assets carried at amortised cost**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.9 Impairment of financial assets (continued)**

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

**2.10 Inventories**

Inventories, including stores and stocks of processed produce, are valued at the lower of cost and estimated net realisable value. In the case of processed produce, cost includes appropriate elements of direct processing costs and overheads. Cost of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2.11 Trade and other receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

**2.12 Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings under current liabilities.

**2.13 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.

**2.14 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**MAKANDI TEA AND COFFEE ESTATES LIMITED****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.15 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement on the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**2.15 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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

Other borrowing costs are expensed in the period in which they are incurred

**2.16 Current and deferred income tax**

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.



**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.17 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 Company 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 Company 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 Company pays fixed contributions into a separate entity. The Company 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 Company 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.

**(c) Bonus plans**

The Company recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to Company's shareholders after certain adjustments. The Company 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 Company 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 Company 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 Company 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 Company.

**2.18 Provisions**

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.19 Dividend distribution**

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

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

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.20 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

*a) Sales of goods*

Wholesale sales represent the invoice value of all tea and macadamia nuts sold in the year. Sales are recognized when significant risks and rewards of ownership of the goods are transferred to the buyer on delivery. Delivery occurs when the products are shipped to their specified locations and the buyer has accepted ownership.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(b) Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

**2.21 Rounding of amounts**

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Kwachas unless otherwise stated.

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company 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 Company uses discounted cash flow analysis to establish the fair value of these biological assets.

**3.1 Biological assets**

The fair value of plantations is determined based on the present value of expected net cash flows from the plantations 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, exchange movements and price movements reduced with cost increases expected.

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 costs considers field, factory and selling costs.

For the purpose of the discounted cash flow analysis, the lives of tea bushes are estimated at 80 years and those of macadamia trees at 50 years.

A discount factor of 9.25% has been used which considers time value for money and estimated country risk.

The following table illustrates the sensitivity to a 5 % variation in each of the significant unobservable inputs used to measure the fair value of the biological assets on 31 December 2015

Significant Variable inputs	Impacts in the fair value resulting from	
	5 % increase K'000	5 % decrease K'000
Average yield	524 583	( 524 583)
Average sales price	2 670 956	( 2 670 956)
Discounting rate	( 2 900 656)	2 900 656

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Useful lives and residual values of vehicles and equipment**

The Company's management determines the estimated residual values, useful lives and related depreciation charges for vehicles and equipment. The estimates are based on expected useful economic lives of vehicles 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.

**3.3 Income taxes**

The Company is subject to income tax in Malawi, and provision for income tax payable is made in the financial statements at year end. 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 Company 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.

**3.4 Going concern**

As at 31 December 2015, the Company's total liabilities exceeded total assets by K 549 749 000 (2013: K 281 711 000) This condition casts significant doubt about the ability of the Company to continue as a going concern.

The Company's holding Company, Dhunseri Petrochem and Tea Pte Limited has undertaken to provide continued financial support so as to enable the Company to meet its liabilities as they fall due and carry on business for at least one year from the statement of financial position date. The directors have considered the solvency position of the Company as at 31 December 2015 and have concluded, on the basis of assurances received from group management that the solvency position has no impact on the Company's ability to trade.

**4 FINANCIAL RISK MANAGEMENT**

**4.1 Financial risk factors**

The Company is exposed to a variety of financial risks such as market risk, credit risk and liquidity risk. The Company 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 Company is exposed to are discussed below:

**4.2 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 Company'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.

**4.2.1 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 Company 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.

Management 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 Company makes prompt payment future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.2.1 Foreign exchange risk (continued)

The table below summaries the Company's exposure to foreign exchange risk as at 31 December:

	K 000 Equivalent	USD Equivalent
<b>At 31 December 2014</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	38 345	80 587
Amounts due from related parties	258 731	543 758
Cash and cash equivalents	-	-
	<u>297 076</u>	<u>624 345</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	433 173	910 372
Amounts due to related parties	218 509	459 225
Borrowings	822 969	1 729 581
	<u>1 474 651</u>	<u>3 099 177</u>
Net on financial position	<u>( 1 177 575)</u>	<u>( 2 474 832)</u>
<b>At 31 December 2015</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	269 048	404 918
Amounts due from related parties	69 847	105 120
Cash and cash equivalents	6 263	9 426
	<u>345 158</u>	<u>519 464</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	38 387	57 773
Amounts due to related parties	110 902	166 908
Borrowings	1 414 867	2 129 381
	<u>1 564 156</u>	<u>2 354 061</u>
Net on financial position	<u>( 1 218 998)</u>	<u>( 1 834 597)</u>

At 31 December 2015, 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 K 60.95 million (2014: K 58.8 million)

## 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 Company is exposed to commodity price risk because tea prices are determined by the international market. To manage the price risk arising from sales the Company also monitors the exchange rate movement on the local auction sales.

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

**4 FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

The Company 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 Company 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 Company'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.

	Effect on profit before income tax 2015 K'000	Effect on profit before income tax 2014 K'000
<b>Interest rate change</b>		
2 % increase	( 28 591)	( 16 459)
2 % decrease	28 591	16 459

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

**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:

	2015 K'000	2014 K'000
Trade and other receivables (excluding prepayments)	283 669	38 345
Amounts due from related parties	69 847	258 731
Cash and cash equivalents	1 075	22 321
	<u>354 591</u>	<u>319 397</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 risk with respect to cash and cash equivalents as the Company holds bank accounts with large financial institutions with sound financial and capital cover.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.4 Liquidity risk management

Liquidity risk is the risk that the Company 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 Company 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:

31 December 2014	Up to 1 Month K'000	1 to 3 months K'000	3 to 12 Months K'000	Total K'000
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	38 345	-	-	38 345
Amounts due from related parties	44 018	214 713	-	258 731
Bank and cash equivalents	22 321	-	-	22 321
	<u>104 684</u>	<u>214 713</u>	<u>-</u>	<u>319 397</u>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	207 686	157 812	67 675	433 173
Borrowings	822 969	-	-	822 969
Amounts due to related parties	218 509	-	-	218 509
	<u>1 249 164</u>	<u>157 812</u>	<u>67 675</u>	<u>1 474 651</u>
<b>Periodic gap</b>	<u>1 150 854</u>	<u>252 912</u>	<u>65 842</u>	<u>( 1 155 254)</u>
<b>Cumulative gap</b>	<u>( 1 150 854)</u>	<u>( 897 942)</u>	<u>( 963 784)</u>	
<b>31 December 2015</b>				
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	195 778	21 978	65 913	283 669
Amounts due from related parties	69 847	-	-	69 847
Bank and cash equivalents	7 206	-	-	7 206
	<u>272 831</u>	<u>21 978</u>	<u>65 913</u>	<u>360 722</u>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	121 967	330 863	168 929	621 759
Borrowings	1 429 561	-	-	1 429 561
Amounts due to related parties	110 902	-	-	110 902
	<u>1 662 430</u>	<u>330 863</u>	<u>168 929</u>	<u>2 162 222</u>
<b>Periodic gap</b>	<u>( 1 389 599)</u>	<u>( 308 885)</u>	<u>( 103 016)</u>	<u>( 1 801 499)</u>
<b>Cumulative gap</b>	<u>( 1 389 599)</u>	<u>( 1 080 714)</u>	<u>( 1 801 499)</u>	

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.5 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 Company 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.

The gearing ratios at 31 March were as follows:

	2015 K'000	2014 K'000
Total borrowings	1 429 561	822 969
Less: cash and cash equivalents	<u>( 7 206)</u>	<u>( 22 321)</u>
Net debt	1 422 355	800 648
Equity	<u>10 530 813</u>	<u>9 240 130</u>
Total capital	<u>11 953 168</u>	<u>10 040 778</u>
Net debt to equity ratio	<u>12%</u>	<u>8%</u>

## 4.6 Agricultural risk

Financial risk management strategies related to agricultural risk include the measures taken above, the employment of specialists to market crops, 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 ongoing 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 Company considers relevant and observable market prices in its valuations where possible.

The Company had no financial assets or liabilities carried at fair value as at 31 December 2015 (2014: K nil).

At 31 December 2015 the Company had biological assets amounting to K 10 788 507 000 (2014: K 8 156 383 000) classified under level 3

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 4.7 Fair value hierarchy (continued)

**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.

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	2015 K'000	2014 K'000
<b>Assets as per statement of financial position</b>		
<b>Loans and receivables:</b>		
Trade and other receivables (excluding prepayments)	283 669	38 345
Amounts due from related parties	69 847	258 731
Cash and cash equivalents	<u>7 206</u>	<u>22 321</u>
	<u>360 722</u>	<u>319 397</u>
<b>Liabilities as per statement of financial position</b>		
<b>Other financial liabilities at amortised cost :</b>		
Trade and other payables (excluding statutory liabilities)	621 759	432 773
Amounts due to related parties	110 902	218 509
Borrowings	<u>1 429 561</u>	<u>822 969</u>
	<u><u>2 162 222</u></u>	<u><u>1 474 251</u></u>

## 5 BIOLOGICAL ASSETS

	Tea K'000	Macadamia K'000	Timber K'000	Total K'000
<b>Year ended 31 December 2014</b>				
<b>Mature plantations</b>				
Carrying amount at 1 January	2 047 363	568 650	442 756	3 058 769
Fair value movement				
- Physical increase	2 789 896	1 651 384	( 173 207)	4 268 073
- Exchange rate movement	<u>272 209</u>	<u>116 949</u>	<u>( 4 070)</u>	<u>385 088</u>
	<u>5 109 468</u>	<u>2 336 983</u>	<u>265 479</u>	<u>7 711 930</u>
<b>Immature plantations</b>				
Carrying amount at 1 January	58 260	97 736	-	155 996
Additions during the year	<u>180 108</u>	<u>108 349</u>	<u>-</u>	<u>288 457</u>
	<u>238 368</u>	<u>206 085</u>	<u>-</u>	<u>444 453</u>
<b>Carrying amount at 31 December 2014</b>	<u><u>5 347 836</u></u>	<u><u>2 543 068</u></u>	<u><u>265 479</u></u>	<u><u>8 156 383</u></u>



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

5 BIOLOGICAL ASSETS (CONTINUED)	Tea K'000	Macadamia K'000	Timber K'000	Total K'000
<b>Year ended 31 December 2015</b>				
<b>Mature plantations</b>				
Carrying amount at 1 January	5 109 468	2 336 983	265 479	7 711 930
Fair value movement				
- Physical (decrease)/increase	( 351 295)	( 499 799)	320 923	( 530 171)
- Exchange rate movement	1 876 551	751 108	105 244	2 732 903
	<u>6 634 724</u>	<u>2 588 292</u>	<u>691 646</u>	<u>9 914 662</u>
<b>Immature plantations</b>				
Carrying amount at 1 January	238 368	206 085	-	444 453
Additions during the year	242 570	186 822	-	429 392
	<u>480 938</u>	<u>392 907</u>	<u>-</u>	<u>873 845</u>
<b>Carrying amount at 31 December 2015</b>	<u><u>7 115 662</u></u>	<u><u>2 981 199</u></u>	<u><u>691 646</u></u>	<u><u>10 788 507</u></u>
<b>At 31 December 2015</b>				
<b>Plantation areas</b>				
	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 867	304	73	2 243
Immature	79	119	639	837
	<u>1 946</u>	<u>423</u>	<u>712</u>	<u>3 080</u>
	Kilograms	Kilograms	Cubic meters	
Output of agricultural produce during the year (Kg)	4 389 390	208 006	9 274	
<b>At 31 December 2014</b>				
<b>Plantation areas</b>				
	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 867	304	55	2 225
Immature	35	33	657	726
	<u>1 902</u>	<u>337</u>	<u>712</u>	<u>2 951</u>
	Kilograms	Kilograms	Cubic meters	
Output of agricultural produce during the year	5 240 498	201 497	17 064	

Immature tea is less than three years old.

Immature macadamia nut trees are less than seven years old.

The valuations of biological assets are calculated using subjective estimates of expected future yields, selling prices, growing costs and appropriate discount rates all of which are difficult to predict with any degree of certainty (refer note 3).

Fair values of biological assets as of 31 December 2015 was estimated by management. The biological assets are classified within Level 3 of the fair value hierarchical level. There were no transfers between levels during 2015.

The Company movable and immovable assets including biological assets are pledged as collateral for bank overdraft (note 11)

## AKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## PROPERTY, PLANT AND EQUIPMENT

	Freehold land K'000	Freehold buildings K'000	Plant equipment and furniture K'000	Motor vehicles K'000	Total K'000
<b>Year ended 31 December 2014</b>					
Opening net book amount	138 468	476 098	968 671	87 016	1 670 253
Additions	-	50 204	187 031	-	237 235
Revaluation surplus	350 060	429 182	1 925 502	718 059	3 422 803
Depreciation charge	-	( 21 967)	( 117 590)	( 19 691)	( 159 248)
<b>Closing net book amount</b>	<b>488 528</b>	<b>933 517</b>	<b>2 963 614</b>	<b>785 384</b>	<b>5 171 043</b>
<b>At 31 December 2014</b>					
Cost or revaluation	488 528	933 517	2 963 614	785 384	5 171 043
Accumulated depreciation	-	-	-	-	-
<b>Closing net book amount</b>	<b>488 528</b>	<b>933 517</b>	<b>2 963 614</b>	<b>785 384</b>	<b>5 171 043</b>
<b>Year ended 31 December 2015</b>					
Opening net book amount	488 528	933 517	2 963 614	785 384	5 171 043
Additions	-	-	34 071	18 650	52 721
Depreciation charge	-	( 43 448)	( 203 912)	( 88 794)	( 336 154)
<b>Closing net book amount</b>	<b>488 528</b>	<b>890 069</b>	<b>2 793 773</b>	<b>715 240</b>	<b>4 887 610</b>
<b>At 31 December 2015</b>					
Cost or revaluation	488 528	933 517	2 997 685	804 034	5 223 764
Accumulated depreciation	-	( 43 448)	( 203 912)	( 88 794)	( 336 154)
<b>Closing net book amount</b>	<b>488 528</b>	<b>890 069</b>	<b>2 793 773</b>	<b>715 240</b>	<b>4 887 610</b>

	At Cost K'000	Accumulated depreciation	Total K'000
Leasehold land	-	-	-
Freehold land	40 314	-	40 314
Freehold buildings	349 655	38 527	311 127
Plant, equipment and furniture	1 995 643	79 922	1 915 721
Motor vehicles	75 319	52 796	22 523
	<b>2 460 931</b>	<b>171 246</b>	<b>2 289 685</b>

6.1 In order to comply with International Accounting Standard 41, the value of the Company's raw land is disclosed separately from biological assets.

6.2 The information required by Section 16 of the Third Schedule of the Companies Act, Cap. 46:03, is contained in a register which is open for inspection by the members or their duly authorised agents at the registered office of the Company.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	2015 K'000	2014 K'000
<b>7 FUTURE CROP EXPENDITURE</b>		
At beginning of the year	53 026	20 596
Additions during the year	70 221	53 026
Transfer to produce inventories on harvesting	( 53 026)	( 20 596)
	<u>70 221</u>	<u>53 026</u>
<b>8 INVENTORIES</b>		
Sundry consumables	645 931	436 048
Agricultural produce	156 322	133 952
Coffee nursery	-	82
Forestry nursery	1 352	935
Macadamia	34 469	16 537
Tea nursery	59 326	41 496
	<u>897 400</u>	<u>629 050</u>
<b>9 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	269 048	38 345
Prepayments	180 659	112 931
VAT recoverable	173 794	83 080
Other receivables	14 621	-
	<u>638 122</u>	<u>234 356</u>
At 31 December, the ageing analysis of these trade receivables is as follows:		
Up to 1 month	181 156	38 345
1 month to 3 months	45 470	-
3 months to 12 months	42 422	-
	<u>269 048</u>	<u>38 345</u>
As of 31 December 2015, trade receivables of K 226 626 000 (2014: K 38 345 000) were fully performing.		
As at 31 December 2015, Company trade receivables of K 42 422 000 (2014: 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 ageing analysis of these trade receivables is as follows:		
3 months to 12 months	42 422	-
It was assessed that all receivables are expected to be recovered.		
The carrying amounts of the Company's trade receivables are denominated in the following currencies:		
United States Dollars	<u>269 048</u>	<u>38 345</u>
The Company 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 Company's trade and other receivables are as stated above, because of their short tenor. There are no impaired assets contained in trade and other receivables.		

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

	2015 K'000	2014 K'000
<b>10 RELATED PARTY BALANCES AND TRANSACTIONS</b>		
<p>The Company is a subsidiary of Dhunseri Petrochem &amp; Tea Pte Ltd which is owned by Dhunseri and Industries Limited.</p> <p>The following transactions were carried out with related parties:</p>		
<b>10.1 Sales to Group Companies</b>		
Kawalazi Estate Company Limited	<u>515 926</u>	<u>389 909</u>
<p>Sales to and purchases from related parties are made on terms and conditions similar to those offered to third party customers and are primarily denominated in US Dollars.</p>		
<b>10.2 Fees charged</b>		
Corporate fees	87 423	74 211
Management fees – Dhunseri Petrochem & Tea Pte	<u>130 900</u>	<u>306 114</u>
	<u>218 323</u>	<u>380 325</u>
<b>10.3 The following year end balances arose from transactions with related parties</b>		
(i) Amounts due from related parties:		
Kawalazi Estate Company Limited	<u>69 847</u>	<u>258 731</u>
(ii) Amounts due to group companies		
Dhunseri Petrochem & Tea (Pte) Limited	<u>110 902</u>	<u>218 509</u>
<p>Balances are interest free and unsecured with no agreed and formalised terms. The amounts due bear no interest.</p>		
<b>10.4 Key management compensation</b>		
<p>Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is as follows:</p>		
Short term benefits: Salaries and bonuses	<u>105 184</u>	<u>71 772</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	2015 K'000	2014 K'000
<b>11 CASH AND CASH EQUIVALENTS</b>		
Current accounts	1 075	22 321
Cash on hand	6 131	-
	<u>7 206</u>	<u>22 321</u>
Cash and cash equivalents (excluding bank overdrafts)		
Cash and cash equivalents include the following for purposes of the statement of cash flows:		
Cash and cash equivalents	7 206	22 321
Bank overdraft (note 16)	( 1 429 561)	( 822 969)
Cash and cash equivalents	<u>( 1 422 355)</u>	<u>( 800 648)</u>
Current accounts attract interest at 1% per annum for balances above K 200 000.		
<b>12 SHARE CAPITAL</b>		
Authorised, issued and fully paid 6 931 127 ordinary shares of K2 each	<u>13 862</u>	<u>13 862</u>
<b>13.2 DEFERRED INCOME TAXES</b>		
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	29 593	-
-Deferred income tax assets to be recovered within 12 months	75 434	40 501
	<u>105 027</u>	<u>40 501</u>
Deferred income tax liabilities:		
-Deferred income tax liabilities to be recovered after more than 12 months	( 4 540 431)	( 3 639 197)
-Deferred income tax liabilities to be recovered within 12 months	-	( 148 402)
	<u>( 4 540 431)</u>	<u>( 3 787 599)</u>
Deferred income tax liabilities, (net)	<u>( 4 435 404)</u>	<u>( 3 747 098)</u>
The gross movement in the deferred income tax account is as follows:		
At 1 January	( 3 747 098)	( 1 246 304)
Charged/(credited) to the income statement	( 688 306)	( 1 473 954)
Credited/(credited) to other comprehensive income	-	( 1 026 840)
At 31 December	<u>( 4 435 404)</u>	<u>( 3 747 098)</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

## 13.2 DEFERRED INCOME TAXES

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax liabilities**

	Accelerated tax depreciation K'000	Fair value gains K'000	Total K'000
At 1 January 2014	( 1 156 798)	( 226 665)	( 1 383 463)
Charged to the income statement	( 1 228 894)		( 1 228 894)
Credited/(credited) to other comprehensive income	-	( 1 026 840)	( 1 026 840)
	<u>( 2 385 692)</u>	<u>( 1 253 505)</u>	<u>( 3 639 197)</u>
At 31 December 2014			
Charged to income statement	1 102 879	( 2 004 113)	( 901 234)
	<u>( 1 282 813)</u>	<u>( 3 257 618)</u>	<u>( 4 540 431)</u>

**Deferred income tax assets**

	Tax losses K'000	Other K'000	Total K'000
At 1 January 2014	57 392	79 767	137 159
(Credited)/charged to the income statement	( 16 891)	( 228 169)	( 245 060)
	<u>40 501</u>	<u>( 148 402)</u>	<u>( 107 901)</u>
At 31 December 2014			
Charged to the income statement	( 10 908)	223 836	212 928
	<u>29 593</u>	<u>75 434</u>	<u>105 027</u>

**2014**  
**K'000**

## 14 EMPLOYEE BENEFIT OBLIGATION

Pension and gratuity payable	<u>162 490</u>	<u>60 074</u>
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Amounts further analysed as follows;

**Year ending 31 December 2015**

	Pension K000	Gratuity K000	Total K000
At the beginning of the year	1 587	58 487	60 074
Charged to the income statement	752	101 664	102 416
Payments during the year			-
	<u>2 339</u>	<u>160 151</u>	<u>162 490</u>

**Year ending 31 December 2014**

At the beginning of the year	4 899	24 018	28 917
Charged to the income statement	19 227	45 980	65 207
Payments during the year	( 22 539)	( 11 511)	( 34 050)
	<u>1 587</u>	<u>58 487</u>	<u>60 074</u>

The amounts are disclosed on the statement of financial position as follows;

Non-current liabilities	160 151	58 487
Current liabilities	<u>2 339</u>	<u>1 587</u>
	<u>162 490</u>	<u>60 074</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	2015 K'000	2014 K'000
<b>15 TRADE AND OTHER PAYABLES</b>		
Trade payables	394 088	363 053
Tax penalties and related taxes	43 062	-
Other taxes payable	8 005	
Accruals	227 671	69 720
Bonus provision (note 15.1)	4 941	4 941
	<u>677 767</u>	<u>437 714</u>
Trade and other payables are due within twelve months from the reporting date.		
<b>15.1</b> The movement in the provision for bonus is as follows:		
At 1 January	4 941	10 575
Additional provisions raised	-	( 5 634)
Unused amounts reversed	-	-
At 31 December	<u>4 941</u>	<u>4 941</u>
<b>16 BORROWINGS</b>		
Bank overdraft	<u>1 429 561</u>	<u>822 969</u>
The Company has overdraft facilities with National Bank of Malawi amounting to US\$ 4.0 million at an interest rate of 8.5 % and an inner facility amounting to MK25.0 million at an interest rate of 37%.		
The facilities are secured over the Companies movable and immovable assets. The facilities expire on 31 October 2016		
The fair value of borrowings approximates their carrying amount as the impact of discounting is not significant.		
<b>17 REVENUE</b>		
Tea	3 301 701	3 475 520
Macadamia	515 926	389 909
	<u>3 817 627</u>	<u>3 865 429</u>
<b>18 COST OF SALES</b>		
Transport,warehouse,brokerage and other costs	138 752	256 183
Field Maintenance costs	725 741	591 634
Harvesting costs	474 480	482 644
Processing costs	718 764	688 519
Estate indirects	358 197	325 291
Outgrower purchases	69 405	58 142
Depreciation of plant and equipment (note 20.1)	231 399	124 034
	<u>2 716 738</u>	<u>2 526 447</u>
<b>19 SUNDRY INCOME</b>		
Insurance claims	7 494	1 076
Green leaf sales	-	13 961
Rent	1 320	2 466
Other sales	10 144	4 048
	<u>18 958</u>	<u>21 551</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	2015 K'000	2014 K'000
<b>20 ADMINISTRATIVE EXPENSES</b>		
Audit fees - current	11 000	9 200
- expenses	1 500	2 046
Bank charges	13 849	15 800
Clinic expenses	48 672	48 359
Communication expenses	13 871	12 273
Depreciation (note 20.1)	104 755	35 214
Directors expenses	3 922	3 463
Entertainment costs	5 583	5 431
Group recharges	113 189	71 772
Insurance	47 238	40 195
Legal and professional fees	8 350	14 974
Management fees	122 895	231 903
Office and stores costs	23 268	19 466
Personnel expenses	1 437	3 872
Staff costs (note 20.2)	285 179	162 740
Security costs	131 463	103 668
Stock write offs	4 973	3 198
Subscriptions and donations	13 155	2 916
Sundry expenses	5 038	4 912
Tax penalties and related expenses	46 230	-
Technical fees	87 423	74 211
Travel and transport	40 623	53 035
	<u>1 133 613</u>	<u>918 648</u>
<b>20.1 Depreciation</b>		
Charged to administrative expenses	104 755	35 214
Charged to cost of goods sold	231 399	124 034
Total depreciation charged (Note 5)	<u>336 154</u>	<u>159 248</u>
<b>20.2 Staff costs</b>		
Salaries and wages	105 366	85 753
Leave pay and severance expenses	128 679	38 359
Power and water costs	11 264	6 863
Overtime and allowances	6 354	4 703
Staff housing and other costs	25 930	19 704
Tevet levy	816	713
Other costs	6 770	6 645
	<u>285 179</u>	<u>162 740</u>
<b>21 FINANCE INCOME AND COSTS</b>		
<b>Finance income</b>		
- Interest income earned on short term bank deposits	-	237
- Realised exchange gains	441 598	31 419
- Unrealised exchange gains	17 067	-
	<u>458 665</u>	<u>31 656</u>
<b>Finance costs</b>		
- Interest paid	78 042	56 845
- Realised exchange losses	541 610	-
- Unrealised exchange losses	29 594	-
	<u>649 246</u>	<u>56 845</u>



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	2015 K'000	2014 K'000
<b>22 TAXATION</b>		
<b>22.1 Income tax expense</b>		
Current income tax	-	-
Prior year current income tax under provision	19 396	-
Deferred income tax	688 306	1 473 955
	<u>707 702</u>	<u>1 473 955</u>
<b>22.2 Reconciliation of tax charge</b>		
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	<u>1 998 385</u>	<u>5 069 857</u>
Tax calculated at a tax rate of 30%	599 516	1 520 957
Tax effects of:		
Expenses not deductible for tax purposes	<u>108 186</u>	<u>( 47 002)</u>
	<u>707 702</u>	<u>1 473 955</u>
<b>22.3 Income tax paid</b>		
Current income tax liabilities (recoverable) at 1 January	( 1 584)	( 1 091)
Current year charge (note 22.1)	-	-
Prior year under charge	19 396	-
Paid during the year	<u>( 5 836)</u>	<u>( 493)</u>
Current income tax liabilities at 31 December	<u>11 976</u>	<u>( 1 584)</u>
<b>23 CAPITAL COMMITMENTS</b>		
There were no capital commitments at 31 December 2015 (2014: none)		
<b>24 CONTINGENT LIABILITIES</b>		
(i) Guarantees	25 760	26 994
(ii) Legal	<u>29 143</u>	<u>6 500</u>
	<u>54 903</u>	<u>33 494</u>
(i) The Company acts a guarantor for its staff on obtaining loans from financial institutions. In the event that any staff defaults, the Company is expected to settle any outstanding liability.		
(ii) The Company is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Company would pay MK29.1 million (2014: MK25.6 million) 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 position.		
<b>25 EVENTS AFTER REPORTING DATE</b>		
There were no events after the reporting date that would have resulted in change to results and financial position of the Company.		