

**KAWALAZI ESTATE COMPANY LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

## **KAWALAZI ESTATE COMPANY LIMITED**

### **NATURE OF BUSINESS**

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

### **DIRECTORS**

CK Dhanuka	Chairman	- Full year
M Dhanuka	Director	- Full year
S Latif, SC	Director	- Full year
GS Naini	Director	- From 1 April 2016
S Hara	Director	- Full year
Prem Singh	Director	- Full year
RK Sharma	Director	- Full year

### **COMPANY SECRETARY**

S Hara

### **REGISTERED OFFICE**

Kawalazi Estate Company Limited  
P O Box 237  
Mzuzu  
Malawi

### **AUDITOR**

PricewaterhouseCoopers  
Chartered Accountants (Malawi)  
Top Floor  
ADL House  
City Centre  
P O Box 30379  
Lilongwe 3

### **LEGAL ADVISOR**

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

### **BANKER**

National Bank of Malawi Limited

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# KAWALAZI ESTATE COMPANY LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### STATEMENT OF THE DIRECTORS' RESPONSIBILITY

The Malawi Companies Act, (Chapter 46: 03), requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results for that year.

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

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 judgments and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Company will not continue in business.

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

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.

DIRECTOR:

Date: 9 May 2017

DIRECTOR:



## **INDEPENDENT AUDITOR'S REPORT**

to the shareholders of

### **KAWALAZI ESTATE COMPANY LIMITED**

#### **Report on the audit of the financial statements**

##### **Our opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Kawalazi Estate Company Limited (the "Company") as at 31 December 2016, 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).

##### **What we have audited**

Kawalazi Estate Company Limited financial statements set out on pages 4 to 33 comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

##### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with the IESBA Code.

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

The directors are responsible for the preparation of financial statements that give a true and fair view of the financial position of Kawalazi Estate Company Limited as at 31 December 2016, and of its financial performance and its cash flows the year then ended 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.

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

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F: +265 (0) 1 773 306, [www.pwc.com/mw](http://www.pwc.com/mw)

R Mbene - Senior Partner

A list of partner's names is available for inspection at the partnership principal business address above.  
VAT reg.no. 30843660



### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

**PricewaterhouseCoopers**  
**Chartered Accountants (Malawi)**  
**Blantyre**

**Ranwell Mbene**

Date:.....

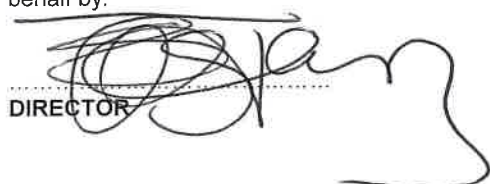
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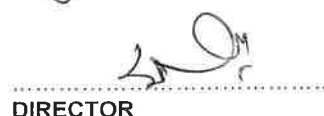
## KAWALAZI ESTATE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

	Note	31 December 2016 K'000	31 December 2015 Restated K'000	1 January 2015 Restated K'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	13 189 885	12 346 862	11 520 904
Biological assets	6	600 969	346 010	326 441
		<u>13 790 854</u>	<u>12 692 872</u>	<u>11 847 345</u>
<b>Current assets</b>				
Future crop expenditure	7	125 263	71 424	63 049
Inventories	8	838 763	621 067	703 012
Trade and other receivables	9	1 183 435	996 268	403 695
Tax recoverable		43 224	36 641	36 641
Cash and cash equivalents	11	28 899	6 288	11 683
		<u>2 219 584</u>	<u>1 731 688</u>	<u>1 218 080</u>
<b>TOTAL ASSETS</b>		<u>16 010 438</u>	<u>14 424 560</u>	<u>13 065 425</u>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	12	33 984	33 984	33 984
Share premium		10 947	10 947	10 947
Revaluation reserve		2 655 234	2 790 887	2 926 540
Bearer plants revaluation reserve		5 713 275	5 000 620	4 190 704
Plantations fair value reserve		494 177	363 517	362 826
Retained earnings		1 361 792	614 405	800 713
<b>Total equity</b>		<u>10 269 409</u>	<u>8 814 360</u>	<u>8 325 714</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred income tax liabilities	19	3 849 408	3 573 409	3 298 245
Employee benefit obligations		-	-	20 069
		<u>3 849 408</u>	<u>3 573 409</u>	<u>3 318 314</u>
<b>Current liabilities</b>				
Borrowings	14	904 715	1 114 453	755 104
Trade and other payables	13	911 050	709 873	294 015
Amounts due to related parties	10	75 856	212 465	312 799
Employee benefits obligations		-	-	59 479
<b>Total current liabilities</b>		<u>1 891 621</u>	<u>2 036 791</u>	<u>1 421 397</u>
<b>Total liabilities</b>		<u>5 741 029</u>	<u>5 610 200</u>	<u>4 739 711</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>16 010 438</u>	<u>14 424 560</u>	<u>13 065 425</u>

The financial statements were approved by the Company's Board of Directors on 9 May 2017 and were signed on its behalf by:

  
DIRECTOR

  
DIRECTOR

## KAWALAZI ESTATE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 K'000	2015 Restated K'000
Revenue	15	5 449 689	3 617 878
Cost of sales	17	( 3 001 116)	( 2 354 545)
<b>Gross profit</b>		2 448 573	1 263 333
Other income	16	65 254	93 187
Gain/(loss) arising from changes in fair values of biological assets	6	186 657	( 987)
Administrative expenses	17	( 1 346 470)	( 1 160 483)
Selling and distribution expenses	17	( 343 233)	( 389 295)
<b>Operating profit/(loss)</b>		1 010 781	( 194 245)
Finance income	18	360 000	3 231 040
Finance costs	18	( 518 347)	( 3 430 008)
<b>Profit/(loss) before income tax</b>		852 434	( 393 213)
Income tax (expense)/credit	19	( 168 177)	13 806
<b>Profit/(loss) for the year</b>		684 257	( 379 407)
<b>Other comprehensive income</b>			
<i>Items that will be reclassified to profit or loss</i>			
<i>Items that will not be reclassified to profit or loss</i>			
Gain on revaluation of bearer plants		1 018 078	1 157 023
Deferred income tax on revaluation of bearer plants		( 305 423)	( 347 107)
Deferred income tax on revaluation of property, plant and equipment		58 137	58 137
<b>Total comprehensive income for the year</b>		1 455 049	488 646

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital K'000	Share premium K'000	Bearer plants revaluation reserve K'000	Plantation fair value reserve K'000	Revaluation reserve K'000	Retained earnings K'000	Total K'000
<b>Year ended 31 December 2015</b>							
<b>At 1 January 2016</b>							
As previously reported	33 984	10 947	4 553 530	-	2 926 540	800 713	8 325 714
<b>Prior year adjustments</b>							
- Revaluation of bearer plants (reclassified)	-	-	( 518 323)	518 323	-	-	-
- Deferred tax (reclassified)	-	-	155 497	( 155 497)	-	-	-
<b>As restated</b>	33 984	10 947	4 190 704	362 826	2 926 540	800 713	8 325 714
<b>Comprehensive income</b>							
Loss for the year	-	-	-	-	-	( 379 407)	( 379 407)
<b>Other comprehensive income:</b>							
Revaluation reserve transfer	-	-	-	-	( 193 790)	193 790	-
Gain on revaluation of bearer plants	-	-	1 157 023	-	-	-	1 157 023
Deferred income tax	-	-	( 347 107)	( 296)	58 137	296	( 288 970)
Transfer of plantation fair value reserve	-	-	-	987	-	( 987)	-
<b>At 31 December 2015</b>	33 984	10 947	5 000 620	363 517	2 790 887	614 405	8 814 360
<b>Year ended 31 December 2016</b>							
<b>At 1 January 2016</b>							
As previously reported	33 984	10 947	5 000 620	363 517	2 790 887	614 405	8 814 360
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	684 257	684 257
<b>Other comprehensive income:</b>							
Revaluation reserve transfer	-	-	-	-	( 193 790)	193 790	-
Gain on revaluation of bearer plants	-	-	1 018 078	-	-	-	1 018 078
Deferred income tax	-	-	( 305 423)	( 55 997)	58 137	55 997	( 247 286)
Transfer of plantation fair value reserve	-	-	-	186 657	-	( 186 657)	-
<b>At 31 December 2016</b>	33 984	10 947	5 713 275	494 177	2 655 234	1 361 792	10 269 409



## KAWALAZI ESTATE COMPANY LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 K'000	2015 Restated K'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before income tax		852 434	( 393 213)
Adjustments for:			
Asset write offs	5	1 426	-
Unrealised exchange gains	18.1	( 360 000)	( 3 230 730)
Unrealised exchange losses	18.2	424 119	3 352 898
Depreciation	5	560 002	508 198
Loss on disposal of property, plant & equipment		-	23 468
Fair value (gain)/loss on biological assets	6	( 186 657)	987
Interest payable	18.2	( 94 228)	77 035
Changes in working capital:			
- Increase in future crop expenditure		( 53 839)	( 8 375)
- (Increase)/decrease in inventories		( 217 696)	81 945
- Increase in trade and other receivables		( 112 034)	( 714 741)
- Increase in trade and other payables		61 352	415 858
- Decrease in amounts due to related parties		( 136 036)	( 100 334)
- Decrease in employee benefit obligation		-	( 79 548)
<b>Cash generated from/(used in) operations</b>		738 843	( 66 552)
Income tax paid		( 146 047)	-
Interest paid	18.2	94 228	( 77 035)
<b>Net cash flows generated from/(utilised in) operating activities</b>		687 024	( 143 587)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	5	( 386 373)	( 204 918)
Purchase of biological assets		( 68 302)	( 20 556)
Proceeds from disposal of property, plant and equipment		-	4 317
<b>Net cash flows utilised in investing activities</b>		( 454 675)	( 221 157)
<b>Net increase/(decrease) decrease in cash and cash equivalents</b>		232 349	( 364 744)
Cash and cash equivalents at beginning of year		( 1 108 165)	( 743 421)
<b>Cash and cash equivalents at end of year</b>	11	( 875 816)	( 1 108 165)
Movement in working capital as defined by legislation			
<b>Excess of current assets over current liabilities</b>		633 066	( 101 786)
- at the beginning of year		( 305 103)	( 203 317)
- at the end of year		327 963	( 305 103)

## KAWALAZI ESTATE COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 1 GENERAL INFORMATION

The principal activities of Kawalazi Estate Company Limited (the Company) is the growing, processing and sale of tea and macadamia. The Company is a wholly owned subsidiary of Dhunseri Petrochem & Tea Pte Limited (DPTPL) incorporated and domiciled in Singapore. DPTPL is a 100% subsidiary company of Dhunseri Tea & Industries Limited which is domiciled in India.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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

###### 2.1.1 Compliance with IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to entities reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and the requirements of the Malawi Companies Act, (Chapter 46:03) applicable to companies reporting under IFRS.

###### 2.1.2 Historical cost convention

The financial statements are based on statutory records that are maintained 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 to the financial statements.

###### 2.1.3 New and amended standards adopted by the Company

The Company has applied the amendments made to IAS 16 and IAS 41 in relation to bearer plants. The resulting changes to the accounting policies and retrospective adjustments made to the financial statements are explained in note 20.

###### 2.1.4 Changes in accounting policy and disclosures

###### a) New and amended standards and interpretations, effective for the first time for 31 December 2016 year ends and relevant to the Company.

Standard/Interpretation	Effective date	Executive summary
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.
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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

b) New and amended standards and interpretations, effective for the first time for 31 December 2016 year ends and that are not currently relevant to the Company (although they may affect future accounting for future transactions).

Standard/Interpretation	Effective date	Executive summary
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.

c) New and amended standards and interpretation issued but not effective for 31 December 2016 year ends that are relevant to the Company but have not been early adopted

Standard/Interpretation	Effective date	Executive summary
IFRS 9 – Financial Instruments (2009 & 2010) * Financial liabilities * Derecognition of financial instruments * Financial assets General hedge accounting	Annual periods beginning on or after (published July 2014)	This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement 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. 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.
Amendment to IFRS 9 - 'Financial instruments', - on general hedge accounting	Annual periods beginning on or after 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: * The own credit risk requirements for financial liabilities. * Classification and measurement (C&M) requirements for financial assets. * C&M requirements for financial assets and financial liabilities. * The full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting). The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

c) New and amended standards and interpretation issued but not effective for 31 December 2016 year ends that are relevant to the Company but have not been early adopted (continued)

Standard/Interpretation	Effective date	Executive summary
Amendment to IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018 (published April 2016)	The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016)	<p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.</p> <p>Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.</p>
Amendment to IAS 7 – Cash flow statements  Statement of cash flows on disclosure initiative	Annual periods beginning on or after 1 January 2017 (published February 2016)	<p>In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to <b>evaluate</b> changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.</p>
Amendment to IAS 12 – Income taxes  Recognition of deferred tax assets for unrealised losses.	Annual periods beginning on or after 1 January 2017 (published February 2016)	<p>The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.</p> <p>The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.</p>



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**c) New and amended standards and interpretation issued but not effective for 31 December 2016 year ends that are relevant to the Company but have not been early adopted (continued)**

Standard/Interpretation	Effective date	Executive summary
IFRIC 22, 'Foreign currency transactions and advance consideration'	Annual periods beginning on or after 1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

**d) New and amended standards and interpretations issue but not effective for 31 December 2016 year ends and are not relevant to the Company**

Standard/Interpretation	Effective date	Executive summary
Amendments to IFRS 2 – 'Share-based payments'  Clarifying how to account for certain types of share-based payment transactions.	Annual periods beginning on or after 1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
IFRS 4, 'Insurance contracts'  Regarding the implementation of IFRS 9, 'Financial instruments'	Annual periods beginning on or after 1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:  • Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and  • Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.  The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**d) New and amended standards and interpretations issue but not effective for 31 December 2016 year ends and are not relevant to the Company (continued)**

Standard/Interpretation	Effective date	Executive summary
IAS 40, 'Investment property' Transfers of investment property	Annual periods beginning on or after 1 January 2018 (published December 2016)	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

**(e) Improvements to IFRS****Annual improvements 2014 - 2016, issued December 2014**

In September 2014, the IASB issued Annual improvements to IFRSs 2012 – 2014 Cycle, which contains five amendments to four standards, excluding consequential amendments. The amendments are effective for the first time for 31 December 2016 year-ends:

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 2014 - 2016, issued December 2016**

The IASB issued annual improvements to IFRSs 2014 - 2016 cycle, which contain three amendments to three standards. The amendments are effective for annual periods beginning on or after 1 January 2017 and 2018.

Annual improvements	Effective date	IFRS
Annual improvements 2014 - 2016	1 January 2017 and 2018	<ul style="list-style-type: none"> <li>• IFRS 1, - 'First time adoption'</li> <li>• IFRS 12, - 'Disclosures of interests in other entities'</li> <li>• IAS 28, - 'Investments in associates and joint ventures'</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.

**2.2 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 Malawi Kwacha ('K') which is the Company's functional and presentation currency.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.2 Foreign currency translation (continued)****(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the date of 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 at year end exchange rates are generally recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income.

**2.3 Biological assets**

Biological assets comprise timber, pluckable leaves growing on tea bushes and nuts growing on macadamia trees. Biological assets 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. Fair value movements include increased yields as plants and trees mature, exchange rate movements and price movements. The tea bushes, macadamia trees are bearer plants and are therefore presented and accounted for as property, plant and equipment. However, timber, pluckable leaves growing on tea bushes, and nuts growing on macadamia trees are accounted for as biological assets until the point of harvest. Harvested produce is transferred to inventory at fair value less costs to sell when harvested.

Changes in fair value of biological assets are recognised in the income statement.

The Company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 January 2015, see note 20 for further information.

**2.4 Property, plant and equipment**

Land and buildings comprise mainly factories and offices. All property, plant and equipment including bearer plants is shown at revalued amounts less subsequent depreciation. Bearer plants are revalued annually, all other property, plant and equipment is revalued triennially by external independent valuers. 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 the 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:

Motor vehicles	3 to 5 years
Agricultural equipment	4 to 14 years
Furniture and fittings	3 to 7 years
Plant and machinery	4 to 25 years
Tea bearer plants	63 years
Macadamia bearer plants	42 years

Timber, tea bushes and macadamia trees are classified as immature until they can be commercially harvested. At that point they are reclassified and measured at fair value. Immature timber, tea bushes and macadamia trees are measured at accumulated cost.

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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.5 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.

**2.6 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 use.

**2.7 Financial assets****2.7.1 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 of trade and other receivables, amounts due to related parties and cash and cash equivalents in the statement of financial position.

**2.7.2 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.

**2.7.3 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.

**2.8 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.

For the 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 a 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.



**KAWALAZI ESTATE COMPANY LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**


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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
**2.9 Inventories**

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

**2.10 Trade and other receivables**

Trade and other receivables are amounts due from customers for merchandise sold or services provided in the ordinary course of business. If collection is expected in one year or less (and in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

**2.11 Cash and cash equivalents**

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. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

**2.12 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.

**2.13 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables 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 and other payables are recognised initially at fair value and subsequently measured at amortised cost 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.

**2.14 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 over the period of the borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transactions 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

**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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.16 Current and deferred income tax**

The income tax expense for the period comprises of current and deferred income 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 the taxable entity where there is an intention to settle the balances on a net basis.

**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 Old Mutual. 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 company 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.

**KAWALAZI ESTATE COMPANY LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**
**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
**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 can be 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 are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

**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.

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.

**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.

**(b) Interest income**

Interest income is recognised using the effective interest rate method. When a loan and receivable is impaired, the Company 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 is recognised using the original effective interest rate.

**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 group uses discounted cash flow analysis to establish the fair value of these biological assets.

**3.1 Bearer plants and 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 rate movements and price movements reduced with expected cost increases.

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

For the purpose of the discounted cash flow analysis, the lives of tea bushes are estimated at 63 years and those of macadamia trees at 42 years.

**KAWALAZI ESTATE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

**3.1 Bearer plants and biological assets**

A discount factor of 12.5 % has been used which considers time value for money and estimated country risk.

The following table illustrates the sensitivity to a 2 % variation in each of the significant unobservable inputs used to measure the fair value of the biological assets on 31 December 2016

Significant variable inputs	2 % increase	2 % decrease
	K'000	K'000
Average yield	178 166	( 178 166)
Average sales price	324 340	( 324 340)
Discounting rate	( 186 290)	186 290

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

The Company's management determines the estimated residual values, useful lives and related depreciation charges for property, plant and equipment. The estimates are based on expected useful economic lives of these assets. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write down technically obsolete or 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 Malawi Revenue Authority. 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**

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in existence for the foreseeable future. The directors have assessed the ability of the Company to continue as a going concern and concluded that the preparation of the financial statements on a going concern basis is still appropriate. However, the directors believe that under the current economic environment, a continuous assessment of the ability of the Company to continue as a going concern will need to be performed to determine continued appropriateness of the going concern assumption that has been applied in the preparation of these financial statements.

**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**

**4.2.1 Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar (US\$). Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 4 FINANCIAL RISK MANAGEMENT

## 4.2 Market risk

## 4.2.1 Foreign exchange risk

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

	2016 K'000 USD Equivalent	2015 K'000 USD Equivalent
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	814 263	641 542
Cash and cash equivalents	7 218	8
	<u>821 481</u>	<u>641 550</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	739 452	631 377
Amounts due to related parties	75 856	212 465
Borrowings	904 715	1 114 453
	<u>1 720 023</u>	<u>1 958 295</u>
Net on financial position	<u>898 542</u>	<u>1 316 745</u>

As at 31 December 2016, if the currency had weakened/strengthened by 10% against the major foreign currencies with all variables held constant, post-tax (loss)/profit for the year would have been K 81 900 000 (2015: K 131 532 000) higher/lower mainly as a result of foreign exchange gains/losses on translation of US dollar – denominated account balances

## 4.2.2 Price risk

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

## 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.



## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 4 FINANCIAL RISK MANAGEMENT

## 4.2.3 Cash flow and fair value interest rate risk

	Effect on profit before income tax 2016 K'000	Effect on profit before income tax 2015 K'000
<b>Interest rate change</b>		
10 % increase	( 9 423)	( 7 719)
10 % decrease	9 423	7 719

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 financial loss to the other party by failing to discharge the contract.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to related parties including outstanding trade receivables and committed transactions. The Company places deposits with Board approved financial institutions to invest surplus funds.

For customers, management assesses the audit quality of each customer taking into account its financial position, past experience and other factors. The utilisations of credit limits are regularly monitored. There is no independent credit rating system in Malawi.

The maximum exposure to credit risk at 31 December 2016 is as follows:

	2016 K'000	2015 K'000
Trade and other receivables (excluding prepayments, taxes and statutory receivables)	818 876	646 714
Cash and cash equivalents	28 899	6 288
	<u>847 775</u>	<u>670 102</u>

There are no outstanding receivables that are either past due or impaired as at the reporting date. No collateral is held to reduce credit risk.

## 4.4 Liquidity risk

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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 4 FINANCIAL RISK MANAGEMENT

## 4.4 Liquidity risk

The table below analyses the maturity profile of the Company's financial assets and liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month K'000	1 to 3 months K'000	3 to 12 months K'000	Total K'000
<b>At 31 December 2015</b>				
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments )	181 606	169 059	296 049	646 714
Cash and cash equivalents	6 288	-	-	6 288
	<u>187 894</u>	<u>169 059</u>	<u>296 049</u>	<u>653 002</u>
<b>Financial liabilities</b>				
Trade and other payables( excluding statutory liabilities)	549 249	-	-	549 249
Borrowings	1 114 453	-	-	1 114 453
Amounts due to related parties	31 110	6 774	174 581	212 465
Total financial liabilities	<u>1 694 812</u>	<u>6 774</u>	<u>174 581</u>	<u>1 876 167</u>
<b>Liquidity gap</b>	<u>( 1 506 918)</u>	<u>162 285</u>	<u>121 468</u>	<u>( 1 223 165)</u>
<b>Cumulative gap</b>	<u>( 1 506 918)</u>	<u>( 1 344 633)</u>	<u>( 1 223 165)</u>	
<b>At 31 December 2016</b>				
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	180 882	40 368	597 626	818 876
Cash and cash equivalents	28 899	-	-	28 899
	<u>209 781</u>	<u>40 368</u>	<u>597 626</u>	<u>847 775</u>
<b>Financial liabilities</b>				
Trade and other payables( excluding statutory liabilities)	739 452	-	-	739 452
Borrowings	904 715	-	-	904 715
Amounts due to related parties	75 856	-	-	75 856
Total financial liabilities	<u>1 720 023</u>	<u>-</u>	<u>-</u>	<u>1 720 023</u>
<b>Liquidity gap</b>	<u>( 1 510 242)</u>	<u>40 368</u>	<u>597 626</u>	<u>( 872 248)</u>
<b>Cumulative gap</b>	<u>( 1 510 242)</u>	<u>( 1 469 874)</u>	<u>( 872 248)</u>	

The Company determines ideal weights for maturity time buckets which are used to benchmark the actual maturity profile, maturity mismatches across the time buckets are managed through borrowings.

## 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.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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## 4 FINANCIAL RISK MANAGEMENT

## 4.5 Capital risk management

The gearing ratios at 31 December were as follows:

	2016 K'000	2015 K'000
Total borrowings	904 715	1 114 453
Less cash and cash equivalents	( 28 899)	( 6 288)
Net debt	875 816	1 108 165
Equity	10 269 409	8 814 360
Total capital	11 145 225	9 922 525
Net debt to equity ratio	8%	11%

## 4.6 Agricultural risk

Financial risk management strategies related to agricultural risk include, the employment of specialists to market crops, the continuous monitoring by management of local and foreign prices of produce, installation of irrigation facilities, and where possible cultivation of drought resistant varieties or clones.

## 4.7 Fair value estimation

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 2016 (2015: K nil).

At 31 December 2016 the Company had biological assets amounting to K 600 969 000 (2015: K 346 010 000) classified under level 3. There were no transfers between any levels during the year.

**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.



## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 4 FINANCIAL RISK MANAGEMENT

	2016 K'000	2015 K'000
<b>4.8 Financial instruments by category</b>		
<b>Assets as per statement of financial position</b>		
<b>Loans and receivables</b>		
Trade and other receivables (excluding prepayments)	818 876	646 714
Cash and cash equivalents	28 899	6 288
	<u>847 775</u>	<u>653 002</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)	739 452	549 249
Amounts due to related parties	75 856	212 465
Borrowings	904 715	1 114 453
	<u>1 720 023</u>	<u>1 876 167</u>

NOTES TO THE FINANCIAL STATEMENTS  
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5. Property, plant and equipment

Year ended 31 December 2015										
As previously reported										
Prior year adjustment										
<b>Restated</b>										
	Land K'000	Buildings K'000	Plant & equipment K'000	Agricultural equipment K'000	Motor vehicles K'000	Furniture and fittings K'000	Capital WIP K'000	Bearer plants mature K'000	immature K'000	Total K'000
1 294 183	1 173 688	1 883 363	175 462	264 646	60 593	-	-	6 165 743	503 226	4 851 935
										6 668 969
1 294 183	1 173 688	1 883 363	175 462	264 646	60 593			6 165 743	503 226	11 520 904
Additions										
Revaluation surplus		2 177	1 562	3 195	4 410	5 860	1 426		186 288	204 918
Disposals								1 108 279	48 744	1 157 023
-Cost				( 6 519)	( 21 266)					( 27 785)
-Accumulated depreciation										
Depreciation charge		( 39 218)	( 145 650)	( 70 131)	( 42 276)	( 26 365)		( 184 558)		( 508 198)
<b>Closing net book amount</b>	1 294 183	1 136 647	1 739 275	102 007	205 514	40 088	1 426	7 089 464	738 258	12 346 862
<b>At 31 December 2015</b>										
Cost	244 644	503 852	605 802	127 598	89 542	66 753	1 426	6 165 743	689 514	8 494 874
Revaluation	1 049 539	732 827	1 388 041	115 995	207 943	13 270		923 721	48 744	4 480 080
Accumulated depreciation		( 100 032)	( 254 568)	( 141 587)	( 91 970)	( 39 935)				( 628 092)
<b>Net book amount</b>	1 294 183	1 136 647	1 739 275	102 006	205 515	40 088	1 426	7 089 464	738 258	12 346 862
<b>Year ended 31 December 2016</b>										
Opening net book amount	1 294 183	1 136 647	1 739 275	102 006	205 515	40 088	1 426	7 089 464	738 258	12 346 862
Additions			7 557	47 157	31 317	3 087			297 255	386 373
Revaluation surplus							( 1 426)	996 802	21 276	1 018 078
Asset write offs										( 1 426)
Depreciation charge		( 39 218)	( 157 541)	( 67 251)	( 44 433)	( 6 700)		( 244 859)		( 560 002)
<b>Closing net book amount</b>	1 294 183	1 097 429	1 589 291	81 912	192 399	36 475		7 841 407	1 056 789	13 189 885
<b>At 31 December 2016</b>										
Cost	244 644	503 852	613 359	174 755	120 859	69 840		6 165 743	986 769	8 879 821
Revaluation	1 049 539	732 827	1 388 041	115 995	207 943	13 270		1 675 664	70 020	5 253 299
Accumulated depreciation		( 139 250)	( 412 109)	( 208 838)	( 136 403)	( 46 635)				( 943 235)
<b>Net book amount</b>	1 294 183	1 097 429	1 589 291	81 912	192 399	36 475		7 841 407	1 056 789	13 189 885

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

6	BIOLOGICAL ASSETS	Timber K'000	Tea K'000	Macadamia K'000	Total K'000
	<b>Year ended 31 December 2015</b>				
	<b>Matured plantations</b>				
	Opening net book amount (as previously reported)	201 557	4 061 742	2 207 568	6 470 867
	Impact of prior year adjustments (reclassification to bearer assets)	-	( 4 059 733)	( 2 106 010)	( 6 165 743)
		201 557	2 009	101 558	305 124
	<b>Immature plantations</b>				
	Opening net book amount (as previously reported)	21 317	255 991	247 235	524 543
	Impact of prior year adjustments (reclassification to bearer assets)	-	( 255 991)	( 247 235)	( 503 226)
		21 317	-	-	21 317
	Restated opening net book amount	222 874	2 009	101 558	326 441
	Additions	20 556	-	-	20 556
	Fair value adjustment	18 762	13 731	( 33 480)	( 987)
	Net book amount	262 192	15 740	68 078	346 010
	<b>Year ended 31 December 2016</b>				
	<b>Matured plantations</b>				
	Opening net book amount	262 192	15 740	68 078	346 010
	Additions	68 302	-	-	68 302
	Fair value adjustment	33 019	91 510	62 128	186 657
	Net book amount	363 513	107 250	130 206	600 969
	<b>At 31 December 2015</b>				
	<b>Plantation areas</b>	Tea Ha	Macadamia Ha	Timber Ha	Total Ha
	Mature	706	905	165	1 776
	Immature	72	113	432	617
		778	1 018	597	2 393
		Kilograms	Kilograms	Cubic meters	
	Output of agricultural produce during the year	2 859 432	148 953	17 950	
	<b>At 31 December 2016</b>				
	<b>Plantation areas</b>	Tea Ha	Macadamia Ha	Timber Ha	Total Ha
	Mature	710	905	165	1 780
	Immature	109	113	432	654
		819	1 018	597	2 434
		Kilograms	Kilograms	Cubic meters	
	Output of agricultural produce during the year	3 102 293	101 036	22 295	
	Immature tea is less than three years old.				

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**6 BIOLOGICAL ASSETS**

Immature macadamia nut trees are less than eight years old. The fair value of biological asset was estimated by management using discounted cash flow method model developed by an independent qualified professional valuer, CB Richard Ellis Botswana. Biological assets are classified within Level 3 of fair value hierarchy. There were no transfers between fair value hierarchy during the year.

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, 12.5% 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 42 and 63 years for macadamia and tea respectively.

<b>7 FUTURE CROP EXPENDITURE</b>	<b>2016 K'000</b>	<b>2015 K'000</b>
<b>Enhancement cost</b>		
At beginning of the year	71 424	63 049
Additions during the year	125 263	71 424
Transfer to produce inventories on harvesting	( 71 424)	( 63 049)
At end of the year	<u>125 263</u>	<u>71 424</u>

**8 INVENTORIES**

Produce inventories	125 569	182 462
Consumable stores	650 268	405 138
Goods in transit	37 868	8 161
Nurseries	25 058	25 306
	<u>838 763</u>	<u>621 067</u>

**9 TRADE AND OTHER RECEIVABLES**

Trade receivables	814 437	539 379
Less allowance for impairment	( 17 100)	( 17 100)
Trade receivables net	797 337	522 279
Other receivables	16 926	119 263
Prepayments	25 198	64 506
Staff debtors	4 613	5 172
VAT claimable	339 361	285 048
	<u>1 183 435</u>	<u>996 268</u>

As at 31 December 2016 trade receivables of K 216 811 000 (2015: K 243 330 000) were fully performing.

As at 31 December 2016, trade receivables of K 580 526 000 (2015: K 278 949 000) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default.

As at 31 December 2016, trade receivables of K 17 100 000 (2015: K 17 100 000) were impaired. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

9	TRADE AND OTHER RECEIVABLES	2016 K'000	2015 K'000
	The aging analysis of these trade receivables is as follows:		
	Up to 90 days	216 811	243 330
	90 days to 120 days	580 526	278 949
	More than 120 days	17 100	17 100
		<u>814 437</u>	<u>539 379</u>
	Movement in the provision for impairment of trade and other receivables that are assessed for impairment collectively are as follows:		
	At 1 January	17 100	-
	Increase in allowance for impairment recognised during the year	-	17 100
	At 31 December	<u>17 100</u>	<u>17 100</u>
	The carrying amounts of the Company's trade and other receivables are denominated in the following currencies		
	USD	814 263	641 542
	MWK	369 172	354 726
		<u>1 183 435</u>	<u>996 268</u>
10	RELATED PARTY BALANCES AND TRANSACTIONS		
	Kawalazi Estate Company Limited is a wholly owned subsidiary of Dhunseri Petrochem & Tea Pte Limited, a company domiciled in Singapore.		
10.1	The following transactions were carried out with related parties:		
	<b>Purchases from fellow group companies</b>		
	Makandi Tea and Coffee Estates Limited	<u>587 442</u>	<u>515 926</u>
	<b>Procurement of services</b>		
	Corporate fees	45 303	34 173
	Management fees - Dhunseri Petrochem & Tea Pte Limited	71 374	57 188
	Directors expenses	<u>3 857</u>	<u>3 312</u>
		<u>120 534</u>	<u>94 673</u>
	<b>Key management personnel compensation</b>		
	Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is as follows:		
	Short term employee benefits - salaries and bonuses	<u>176 320</u>	<u>105 083</u>
10.2	The following year end balances arose from transactions with related parties:		
	<b>Amounts due to related parties</b>		
	Dhunseri Petrochem & Tea Pte Limited	62 694	142 618
	Makandi Tea and Coffee Estates Limited	<u>13 162</u>	<u>69 847</u>
		<u>75 856</u>	<u>212 465</u>
	There are no outstanding balances due from related parties.		
10.3	<b>Terms and conditions</b>		
	Related party transactions include management fees on services rendered by the parent company and the purchase of goods for own use. Amounts due to/due from related parties are interest free.		
	Outstanding balances are unsecured and are repayable in cash.		

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

11 CASH AND CASH EQUIVALENTS	2016 K'000	2015 K'000
Cash at bank and in hand	27 987	5 443
Deposits at call	912	845
	<u>28 899</u>	<u>6 288</u>

*Reconciliation to cash flow statement*

The above figures reconcile to the amount of cash and cash equivalents shown in the statement of cash flows at the end of financial year as follows:

Cash and bank balances	28 899	6 288
Bank overdraft (note 14)	( 904 715)	( 1 114 453)
Cash and cash equivalents per statement of cash flows	<u>( 875 816)</u>	<u>( 1 108 165)</u>

*Classification as cash equivalents*

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest

## 12 CAPITAL AND RESERVES

**Authorised**

60 000 000 ordinary shares of K1 each	<u>60 000</u>	<u>60 000</u>
---------------------------------------	---------------	---------------

**Issued and fully paid:**

33 984 000 ordinary shares of K1 each	<u>33 984</u>	<u>33 984</u>
---------------------------------------	---------------	---------------

The unissued shares are under the control of directors subject to the limitations imposed by the Malawi Companies Act, (Chapter. 46:03) and the Articles of Association of the Company.

## 13 TRADE AND OTHER PAYABLES

Trade payables	319 280	343 571
Payroll liabilities	102 152	78 496
Statutory liabilities	171 598	160 624
General accruals and provisions	127 643	8 381
Audit fee accrual	13 545	13 210
Gratuity accrual	176 832	105 591
	<u>911 050</u>	<u>709 873</u>

Trade payables are unsecured and are usually paid within 90 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

## 14 BORROWINGS

Bank overdrafts	<u>904 715</u>	<u>1 114 453</u>
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The Company has overdraft facilities of USD 2.5 million and MK 25 million with National Bank of Malawi, in addition to a guarantee of K 4 million to cover charges with exporting agents. These facilities are secured by a debenture of up to USD 3 million over the Company's assets as and when requested by the bank.

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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	2016 K'000	2015 K'000
<b>15 REVENUE</b>		
Sale of tea	3 431 043	1 914 893
Sale of macadamia	2 018 646	1 702 985
	<u>5 449 689</u>	<u>3 617 878</u>
<b>16 OTHER INCOME</b>		
Sundry sales	32 639	28 547
Insurance claims	32 615	64 640
	<u>65 254</u>	<u>93 187</u>
<i>(i) Sundry sales</i>		
Sundry sales include proceeds from macadamia dust, oil, tractor hire, maize mill and honey.		
<b>17 EXPENSES BY NATURE</b>		
Allowance for impairment of trade receivables	-	17 100
Audit fees	14 766	15 740
Bank charges	25 103	14 687
Clinics	42 774	32 474
Communication	16 761	14 251
Depreciation	560 002	508 199
Directors expenses	3 857	3 312
Entertainment costs	2 865	4 185
Field maintenance costs	830 170	531 713
Harvesting costs	376 922	260 905
Indirect estate costs	266 814	189 836
Insurance	34 740	35 126
Land rent	8 368	9 069
Legal and professional fees	1 269	13 235
Loss on disposal	-	23 469
Management fees – Dhunseri Petrochem Pte Limited	116 677	91 361
Office and stores costs	11 141	16 373
Outgrower purchases	574 000	540 097
Personnel expenses	3 054	9 300
Power and water costs	25 326	17 043
Primary processing costs	18 385	20 662
Research costs	1 008	112
Salaries and related costs (17.1)	371 854	262 115
Secondary processing costs	710 033	595 551
Security costs	121 423	79 918
Selling and distribution expenses (note 17.2)	343 233	389 295
Stock write-offs	943	21 345
Subscriptions and donations	23 244	12 517
Sundry expenses	518	86
Technical fees	131 093	131 017
Travel and transport	49 942	44 230
Other expenses	4 534	-
	<u>4 690 819</u>	<u>3 904 323</u>
<b>DISCLOSED AS</b>		
Cost of sales (note 17.3)	3 001 116	2 354 545
Selling and distribution expenses (note 17.2)	343 233	389 295
Administrative expenses	1 346 470	1 160 483
	<u>4 690 819</u>	<u>3 904 323</u>

**NOTES TO THE FINANCIAL STATEMENTS  
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<b>17 EXPENSES BY NATURE (CONTINUED)</b>		<b>2016</b>	<b>2015</b>
		<b>K'000</b>	<b>K'000</b>
<b>17.1 Salaries and related costs</b>			
Salaries Management		176 320	105 083
Salaries Other staff		78 136	69 245
Pension costs		76 768	50 940
Overtime		4 926	2 654
Leave and severance pay		3 527	6 306
Staff housing costs		9 637	8 237
Welfare and ration costs		22 540	19 650
		<u>371 854</u>	<u>262 115</u>
<b>17.2 Selling and distribution expenses</b>			
Transportation and brokerage costs		288 676	340 310
Sample postage charges		14 179	18 162
Cess levy on production and sales		31 111	21 896
Warehouse and handling		9 267	8 927
		<u>343 233</u>	<u>389 295</u>
<b>17.3 Cost of sales</b>			
Harvesting costs		376 922	260 905
Dereciation		224 792	215 781
Field maintenance costs		830 170	531 713
Primary processing costs		18 385	20 662
Indirect estates costs		266 814	189 836
Outgrower purchases		574 000	540 097
Secondary processing costs		710 033	595 551
		<u>3 001 116</u>	<u>2 354 545</u>
<b>18 FINANCE INCOME/(COST)</b>			
<b>18.1 Finance income</b>			
Interest income		-	75
Unrealised exchange gains		360 000	3 230 730
Realised exchange gains		-	235
		<u>360 000</u>	<u>3 231 040</u>
<b>18.2 Finance cost</b>			
Interest charges		( 94 228)	( 77 110)
Unrealised exchange loss		( 424 119)	( 3 352 898)
		<u>( 518 347)</u>	<u>( 3 430 008)</u>



## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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19 INCOME TAX EXPENSE	2016 K'000	2015 K'000
<b>19.1 Tax expense</b>		
Current income tax	139 464	-
Deferred income tax charge/(credit)	28 713	( 13 806)
<b>Income tax expense</b>	<b>168 177</b>	<b>( 13 806)</b>
The tax on the Company's profit before tax differs from that that would arise using the legislated tax rate as follows:		
Profit/(loss) before income tax expense	852 434	( 393 213)
Tax at the Malawi tax rate of 30% (2015 - 30%)	255 730	( 117 964)
Tax effects of:		
Exchange differences	( 17 415)	( 830 870)
Disallowable expenses	9 884	586 218
Tax losses brought forward	( 113 407)	( 97 899)
Permanent differences	122 511	424 583
	<b>168 177</b>	<b>( 13 806)</b>
<b>19.2 Deferred income tax</b>		
The analysis of deferred income tax assets and deferred income tax liabilities is as follows:		
<b>Deferred income tax assets:</b>		
Deferred income tax assets to be recovered after more than 12 months	-	( 113 407)
Deferred income tax assets to be recovered within 12 months	( 76 670)	( 24 296)
	<b>( 76 670)</b>	<b>( 137 703)</b>
<b>Deferred income tax liabilities:</b>		
Deferred income tax liability to be recovered after more than 12 months	3 785 759	3 496 005
Deferred income tax liability to be recovered within 12 months	140 319	215 107
	<b>3 926 078</b>	<b>3 711 112</b>
<b>Deferred income tax liability – net</b>	<b>3 849 408</b>	<b>3 573 409</b>
The gross movement in the deferred tax account is as follows:		
At beginning of year	3 573 409	3 298 245
Charge to equity	247 286	288 970
Charge to income statement	28 713	( 13 806)
At end of year	<b>3 849 408</b>	<b>3 573 409</b>
The movement in deferred income tax assets and liabilities during the year without taking into consideration the offsetting of balances is as follows:		

	Accelerated capital allowances K'000	Plantation fair value reserve K'000	Revaluation reserve K'000	Tax losses carried forward K'000	Other K'000	Total K'000
At 1 January 2015	310 574	2 098 623	1 052 284	( 97 899)	( 65 337)	3 298 245
Charge to equity	-	347 107	( 58 137)	-	-	288 970
Credit to income statement	( 95 467)	56 128	-	( 15 508)	41 041	( 13 806)
At 31 December 2015	<b>215 107</b>	<b>2 501 858</b>	<b>994 147</b>	<b>( 113 407)</b>	<b>( 24 296)</b>	<b>3 573 409</b>
At 1 January 2016	215 107	2 501 858	994 147	( 113 407)	( 24 296)	3 573 409
Charge to equity	-	305 423	( 58 137)	-	-	247 286
Charge to income statement	( 74 788)	42 468	-	113 407	( 52 374)	28 713
At 31 December 2016	<b>140 319</b>	<b>2 849 749</b>	<b>936 010</b>	<b>-</b>	<b>( 76 670)</b>	<b>3 849 408</b>

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 20 CHANGES IN ACCOUNTING POLICY

As explained in note 2 above, the Company has adopted the amendments made to IAS 16 and IAS 41 in relation to bearer plants this year. These amendments have resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

## a) Bearer plants

In June 2014, the IASB made amendments to IAS 16 Property, plant and equipment and IAS 41 Agriculture which distinguish bearer plants from other biological assets. Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery. They will therefore now be accounted for under IAS 16. However, agricultural produce growing on bearer plants will remain within the scope of IAS 41 and continue to be measured at fair value less cost to sell.

The Company's tea and macadamia trees qualify as bearer plants under the new definition in IAS 41. As required under IAS 8, the change in accounting policy has been applied retrospectively. As a consequence, the bearer plants were reclassified to property, plant and equipment effective 1 January 2015 and comparative figures have been restated accordingly.

The bearer plants are now measured using a revaluation model and depreciated over their estimated useful lives. As permitted under the transitional rules, the fair value of the trees at 1 January 2015 (K 6 668 969 000) was deemed to be their cost going forward.

## i) Impact on financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the change have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. As permitted under the transitional rules, the impact on the current period is not disclosed.

## Statement of comprehensive income (extracts)

	Prior years restatement		
	2015		
	(Previously stated)	Increase/ (Decrease)	2015
	K'000	K'000	(Restated) K'000
Gain/(loss) arising from changes in fair values of biological assets	971 478	( 972 465)	( 987)
Depreciation on bearer plants	( 323 640)	( 184 558)	( 508 198)
<b>Profit/(loss) before income tax - net impact</b>	647 838	( 1 157 023)	( 509 185)
<b>Income tax expense - net impact</b>	( 194 351)	( 347 107)	( 541 458)
<b>Profit/(loss) for the period - net impact</b>	453 487	( 1 504 130)	( 1 050 643)
<b>Items that will not be reclassified to the profit or loss</b>			
Bearer plants revaluation	-	1 157 023	1 157 023
Deferred income tax on bearer plants revaluation	-	( 347 107)	( 347 107)
<b>Total comprehensive income for the year</b>	259 135	( 1 851 237)	( 1 592 102)

## KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 20 CHANGES IN ACCOUNTING POLICY (CONTINUED)

## Statement of financial position (extracts)

	31 December 2015		Prior years restatements			
	(Previously stated) K'000	Increase/ (decrease) K'000	31 December 2015 (Restated) K'000	1 January 2015 (Previously stated) K'000	Increase/ (decrease) K'000	1 January 2015 (Restated) K'000
Property, plant and equipment	4 519 140	7 827 722	12 346 862	4 851 935	6 668 969	11 520 904
Biological assets	8 173 732	( 7 827 722)	346 010	6 995 410	( 6 668 969)	326 441
<b>Total assets</b>	<b>12 692 872</b>	<b>-</b>	<b>12 692 872</b>	<b>11 847 345</b>	<b>-</b>	<b>11 847 345</b>
Deferred income tax liabilities	3 703 981	( 130 572)	3 573 409	-	-	-
Bearer plant revaluation reserve	-	5 000 620	5 000 620	-	4 190 704	4 190 704
Plantations fair value reserve	5 233 565	( 4 870 048)	363 517	4 553 530	( 4 190 704)	362 826
<b>Total equity</b>	<b>5 233 565</b>	<b>130 572</b>	<b>5 364 137</b>	<b>4 553 530</b>	<b>-</b>	<b>4 553 530</b>

## 21 CAPITAL COMMITMENTS

There were no authorised or contracted capital commitments as at 31 December 2016 (2015 nil).

## 22 CONTINGENT LIABILITIES

## Contingent liabilities

- (i) The Company's land has been encroached by people of surrounding villages since 2010, and a claim for damages and a restraining order has been filed with the courts. The case has not been concluded hitherto but if the defence against the action is unsuccessful, the company would be exposed to the loss of the land and will incur legal costs of MK 3 000 000.
- (ii) The Company is a defendant to several other 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 MK 16 500 000 including legal costs. Based on legal advice, the directors are of the opinion that the outcome of the action may not have a material effect on the company's financial position.

## 23 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date that would have resulted in a change to the results and financial position of the Company.