

KAWALAZI ESTATE COMPANY LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2017

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 Nain	Director	- Full year
S Hara	Director	- Full year
S Nain	Director	- From 31 March, 2017
RK Sharma	Director	- Full year
M Beriwala	Director	- From 31 March, 2017

COMPANY SECRETARY

S Hara

REGISTERED OFFICE

Kawalazi Estate Company Limited
P O Box 237
Mzuzu
Malawi

AUDITOR

PricewaterhouseCoopers
Chartered Accountants (Malawi)
Top Floor
Mercantile 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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The financial statements are expressed in Malawi Kwacha ("K")

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

STATEMENT OF THE DIRECTORS' RESPONSIBILITY

The Malawi Companies Act, (Chapter 46: 03) (the Act), 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:


DIRECTOR:

Date: 10 April 2018



INDEPENDENT AUDITOR'S REPORT

to the shareholders of

KAWALAZI ESTATE COMPANY LIMITED

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 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act (Chapter 46:03).

What we have audited

Kawalazi Estate Company Limited's financial statements set out on pages 4 to 29 comprise:

- the statement of financial position as at 31 December 2017;
- 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 and in accordance with other ethical requirements applicable to performing audits in Malawi.

Other information

The directors are responsible for the other information. The other information comprises the Statement of Directors' Responsibility. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of 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 misstatement, 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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R Mbene - Senior Partner

A list of partners 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)
Lilongwe

Ranwell Mbene

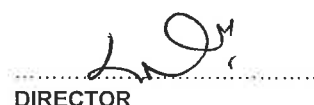
Date: 12 April 2018

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 K'000	2016 K'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	18 474 072	13 189 885
Current assets			
Biological assets	6	368 813	600 969
Future crop expenditure	7	137 038	125 263
Inventories	8	986 089	838 763
Trade and other receivables	9	1 102 454	1 183 435
Tax recoverable	20	-	43 224
Cash and cash equivalents	11	12 611	28 899
		<u>2 607 005</u>	<u>2 219 584</u>
TOTAL ASSETS		<u>21 081 077</u>	<u>16 010 438</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	33 984	33 984
Share premium		10 947	10 947
Revaluation reserve		4 733 118	2 655 234
Bearer plants revaluation reserve		7 199 717	5 713 275
Plantations fair value reserve		455 224	494 177
Retained earnings		<u>2 249 212</u>	<u>1 361 792</u>
Total equity		<u>14 682 202</u>	<u>10 269 409</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	20	<u>5 031 107</u>	<u>3 849 408</u>
Current liabilities			
Borrowings	15	439 980	904 715
Trade and other payables	13	562 720	911 050
Amounts due to related parties	10	185 865	75 856
Current income tax liabilities	20	152 986	-
Increase in employee benefits obligations	14	<u>26 217</u>	<u>-</u>
Total current liabilities		<u>1 367 768</u>	<u>1 891 621</u>
Total liabilities		<u>6 398 875</u>	<u>5 741 029</u>
TOTAL EQUITY AND LIABILITIES		<u>21 081 077</u>	<u>16 010 438</u>

The financial statements were approved by the Company's Board of Directors on 16 April 2018 and were signed on its behalf by:


DIRECTOR


DIRECTOR

KAWALAZI ESTATE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 K'000	2016 K'000
Revenue	16	5 827 914	5 449 689
Cost of sales	18	(2 930 918)	(3 001 116)
Gross profit		2 896 996	2 448 573
Other income	17	90 184	65 254
(Loss)/gain arising from changes in fair values of biological assets	6	(232 156)	186 657
Administrative expenses	18	(1 613 529)	(1 346 470)
Selling and distribution expenses	18	(340 301)	(343 233)
Operating profit		801 194	1 010 781
Finance income	19	27 873	360 000
Finance costs	19	(59 128)	(518 347)
Profit before income tax		769 939	852 434
Income tax credit/(expense)	20	199 467	(168 177)
Profit for the year		969 406	684 257
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Gain on revaluation of property, plant and equipment		5 091 895	1 018 078
Deferred income tax on revaluation of property, plant and equipment		(1 527 569)	(247 286)
Total comprehensive income for the year		4 533 732	1 455 049

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 K'000	2016 K'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		769 939	852 434
Adjustments for:			
Asset write offs	5	38 613	1 426
Unrealised exchange gains		(27 873)	(360 000)
Unrealised exchange losses		12 743	424 119
Depreciation	5	500 433	560 002
Fair value loss(gain) on biological assets	6	232 156	(186 657)
Interest payable	18.2	(46 385)	(94 228)
Changes in working capital:			
- Increase in future crop expenditure		(11 775)	(53 839)
- Increase in inventories		(147 326)	(217 696)
- Decrease/ (increase) in trade and other receivables		108 854	(112 034)
- Decrease/(increase) in trade and other payables		(361 073)	61 352
- Increase in employee benefits		26 217	-
- Increase/(decrease) in amounts due to related parties		110 009	(136 036)
Cash generated from operations		1 204 532	738 843
Income tax refund/(paid)	19.2	49 807	(146 047)
Interest paid	18.2	46 385	94 228
Net cash flows generated from/(utilised in) operating activities		1 300 724	687 024
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(731 338)	(386 373)
Purchase of biological assets		-	(68 302)
Dividends paid		(120 939)	-
Net cash flows utilised in investing activities		(852 277)	(454 675)
Net increase in cash and cash equivalents		448 447	232 349
Cash and cash equivalents at beginning of year		(875 816)	(1 108 165)
Cash and cash equivalents at end of year	11	(427 369)	(875 816)
Movement in working capital as defined by legislation			
Excess of current assets over current liabilities		911 274	633 066
- at the beginning of year		327 963	(305 103)
- at the end of year		1 239 237	327 963

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 Changes in accounting policy and disclosures

a) New and amended standards and interpretations, effective for the first time for 31 December 2017 year ends and relevant to the Company.

Amendment to IAS 7 – Cash flow statements 'Statement of cash flows on disclosure initiative 'Annual periods beginning on or after 1 January 2017 (published Feb 2016)

In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate 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.

Amendment to IAS 12 – Income taxes 'Recognition of deferred tax assets for unrealised losses'. Annual periods beginning on or after 1 January 2017 (published Feb 2016)

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.

The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

Annual improvements 2014-2016 (part) Annual periods beginning on or after 1 January 2017 (published December 2016)

These amendments impact 3 standards:

IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

b) New and amended standards and interpretations, effective for the first time for 31 December 2017 year ends and that are not currently relevant to the Company (although they may affect future accounting for future transactions).

IFRS 9 – Financial Instruments (2009 & 2010) Financial liabilities, Derecognition of financial instruments, Financial assets, and General hedge accounting Annual periods beginning on or after 1 January, 2018 (published July 2014)

This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

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.

IFRS 15 – Revenue from contracts with customers 'Annual periods beginning on or after 1 January 2018 (published May 2014)

The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.

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)

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

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'.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

IFRS 17, 'Insurance contracts' Annual periods beginning on or after 1 January 2021 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (published May 2017)

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

Amendment to 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.

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.

Amendment to 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(c) Improvements to IFRS

Annual improvements 2014-2016 Annual periods beginning on or after 1 January 2017 and 2018 (published December 2016)

These amendments impact 3 standards:

- IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
- IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
- IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.

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.

IFRIC 23, 'Uncertainty over income tax treatments' Annual periods beginning on or after 1 January 2019 (Published 7 June 2017)

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

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.

(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 and timber root stock are bearer plants and are therefore presented and accounted for as property, plant and equipment. However, ready to cut 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.

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**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 statement of comprehensive income 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	65 years
Macadamia bearer plants	35 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.

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 from 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.

2.9 Inventories

Inventories, including consumable 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.

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**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 statement of comprehensive income 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2.17 Employee benefits

(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.

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

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**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 two 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 65 years and those of macadamia trees at 35 years.

Bearer plants and biological assets were valued by Interval Services (Proprietary) Limited, qualified valuers as at 31 December 2017. The fair value has been arrived at by using discounted cash flow method.

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

Property plant and equipment were revalued as at 31 December 2017 on behalf of directors by Interval Services (Proprietary) Limited. The basis of valuation was market value assuming continuing present usage. In the opinion of directors, these amounts approximate the fair value of property, plant and equipment at the reporting date.

The fair value measurement has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

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.

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

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FOR THE YEAR ENDED 31 DECEMBER 2017

4.2.1 Foreign exchange risk

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

	2017 K'000 USD Equivalent	2016 K'000 USD Equivalent
Financial assets		
Trade and other receivables (excluding prepayments)	1 073 855	814 263
Cash and cash equivalents	12 611	7 218
	<u>1 086 466</u>	<u>821 481</u>
Financial liabilities		
Trade and other payables (excluding statutory liabilities)	515 825	739 452
Amounts due to related parties	185 865	75 856
Borrowings	439 980	904 715
	<u>1 141 670</u>	<u>1 720 023</u>
Net on financial position	<u>55 204</u>	<u>898 542</u>

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. The Company does not hedge price risk associated with tea and macadamia nuts.

4.2.3 Cash flow and fair value interest rate risk

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

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

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

Interest rate risk sensitivity analysis

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

	Effect on profit before income tax 2017 K'000	Effect on profit before income tax 2016 K'000
Interest rate change		
10 % increase	<u>(4 639)</u>	<u>(9 423)</u>
10 % decrease	<u>4 639</u>	<u>9 423</u>

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

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**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 2017 is as follows:

	2017 K'000	2016 K'000
Trade and other receivables (excluding prepayments, taxes and statutory receivables)	1 076 490	818 876
Cash and cash equivalents	12 611	28 899
	<u>1 089 101</u>	<u>847 775</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.

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
At 31 December 2016				
Financial assets				
Trade and other receivables (excluding prepayments)	180 882	40 368	597 626	818 876
Cash and cash equivalents	28 899	-	-	28 899
Total finance assets	<u>209 781</u>	<u>40 368</u>	<u>597 626</u>	<u>847 775</u>
Financial liabilities				
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>
Liquidity gap	<u>(1 510 242)</u>	<u>40 368</u>	<u>597 626</u>	<u>(872 248)</u>
Cumulative gap	<u>(1 510 242)</u>	<u>(1 469 874)</u>	<u>(872 248)</u>	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4.4 Liquidity risk

	Up to 1 month K'000	1 to 3 months K'000	3 to 12 months K'000	Total K'000
At 31 December 2017				
Financial assets				
Trade and other receivables (excluding prepayments)	451 870	3 451	618 534	1 073 855
Cash and cash equivalents	12 611	-	-	12 611
Total finance assets	464 481	3 451	618 534	1 086 466
Financial liabilities				
Trade and other payables(excluding statutory liabilities)	515 825	-	-	515 825
Borrowings	439 980	-	-	439 980
Amounts due to related parties	185 865	-	-	185 865
Total financial liabilities	1 141 670	-	-	1 141 670
Liquidity gap	(677 189)	3 451	618 534	(55 204)
Cumulative gap	(677 189)	(673 738)	(55 204)	

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.

The gearing ratios at 31 December were as follows:

	2017 K'000	2016 K'000
Total borrowings	439 980	904 715
Less cash and cash equivalents	(12 611)	(28 899)
Net debt	427 369	875 816
Equity	14 682 202	10 269 409
Total capital	15 109 571	11 145 225
Net debt to equity ratio	3%	8%

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**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 2017 (2016: K nil).

At 31 December 2017 the Company had biological assets amounting to K 368 813 000 (2016: K 600 969 000) 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 because the instruments are short term in nature.

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

	2017 K'000	2016 K'000
4.8 Financial instruments by category		
Assets as per statement of financial position		
Loans and receivables		
Trade and other receivables (excluding prepayments)	1 076 490	818 876
Cash and cash equivalents	12 611	28 899
	<u>1 089 101</u>	<u>847 775</u>
Liabilities as per statement of financial position		
Other financial liabilities at amortised cost		
Trade and other payables (excluding statutory liabilities)	515 825	739 452
Amounts due to related parties	185 865	75 856
Borrowings	439 980	904 715
	<u>1 141 670</u>	<u>1 720 023</u>

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

	Land	Buildings	Plant & equipment	Agricultural equipment	Motor vehicles	Furniture and fittings	Capital work in progress	Bearer plants		Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	Mature	Immature	K'000
Year ended 31 December 2016										
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	-	-	-	-	-	-	-	996 802	21 276	1 018 078
Asset write offs	-	-	-	-	-	-	(1 426)	-	-	(1 426)
Depreciation charge	-	(39 218)	(157 541)	(67 251)	(44 433)	(6 700)	-	(244 859)	-	(560 002)
Closing net book amount	1 294 183	1 097 429	1 589 291	81 912	192 399	36 475	-	7 841 407	1 056 789	13 189 885
At 31 December 2016										
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)
Net book amount	1 294 183	1 097 429	1 589 291	81 912	192 399	36 475	-	7 841 407	1 056 789	13 189 885
Year ended 31 December 2017										
Opening net book amount	1 294 183	1 097 429	1 589 291	81 912	192 399	36 475	-	7 841 407	1 056 789	13 189 885
Additions	-	2 114	179 376	141 889	45 966	8 562	-	-	353 431	731 338
Revaluation surplus	547 952	603 145	1 447 997	257 275	44 404	67 633	-	2 087 780	35 709	5 091 895
Asset write offs	-	-	-	(8 850)	(29 763)	-	-	-	-	(38 613)
Depreciation charge	-	(39 556)	(132 698)	(46 585)	(40 312)	(9 175)	-	(223 154)	(8 953)	(500 433)
Closing net book amount	1 842 135	1 663 132	3 083 966	425 641	212 694	103 495	-	9 706 033	1 436 976	18 474 072
Cost	244 644	505 966	792 735	307 794	137 062	78 402	-	6 165 743	1 340 200	9 572 546
Revaluation	1 597 491	1 157 166	2 291 231	117 847	75 632	25 093	-	3 540 290	96 776	8 901 526
Net book amount	1 842 135	1 663 132	3 083 966	425 641	212 694	103 495	-	9 706 033	1 436 976	18 474 072

Immature tea and timber are less than three and 7 years respectively.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2017

6	BIOLOGICAL ASSETS	Timber K'000	Tea K'000	Macadamia K'000	Total K'000
	Year ended 31 December 2016				
	Matured plantations				
	Opening balance	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
	Year ended 31 December 2017				
	Matured plantations				
	Opening net book amount	363 513	107 250	130 206	600 969
	Fair value adjustment	(55 692)	(38 386)	(138 078)	(232 156)
	Net book amount	307 821	68 864	(7 872)	368 813
	At 31 December 2016				
	Plantation areas				
		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	
	At 31 December 2017				
	Plantation areas				
		Tea Ha	Macadamia Ha	Timber Ha	Total Ha
	Mature	710	905	165	1 780
	Immature	109	113	531	753
		819	1 018	696	2 533
		Kilograms	Kilograms	Cubic meters	
	Output of agricultural produce during the year	3 338 242	147 007	18 932	

The biological assets were revalued as at 31 December 2017 on behalf of directors by Interval Services (Proprietary) Limited. The basis of valuation was market value based on the sum total of the discounted net cash inflows for the remaining economic lives of the biological assets.

It is assumed that the inflation rate relevant to the sales proceeds will not be less than local cost inflation. In line with the prevailing United States Dollar interest rates on the local market, 12.5 % has been used to discount the US Dollar net cash flows.

Crop yield 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 65 and 35 years for macadamia and tea respectively.

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	2017 K'000	2016 K'000
7 FUTURE CROP EXPENDITURE		
Enhancement cost		
At beginning of the year	125 263	71 424
Additions during the year	137 038	125 263
Transfer to produce inventories on harvesting	(125 263)	(71 424)
At end of the year	<u>137 038</u>	<u>125 263</u>
8 INVENTORIES		
Produce inventories	210 204	125 569
Consumable stores	560 767	650 268
Goods in transit	134 525	37 868
Nurseries	80 593	25 058
	<u>986 089</u>	<u>838 763</u>
9 TRADE AND OTHER RECEIVABLES		
Trade receivables	960 079	814 437
Less allowance for impairment	(26 054)	(17 100)
Trade receivables net	934 025	797 337
Other receivables	21 631	16 926
Prepayments	28 599	25 198
Staff debtors	2 635	4 613
VAT claimable	115 564	339 361
	<u>1 102 454</u>	<u>1 183 435</u>
As at 31 December 2017 trade receivables of K 341 545 000 (2016: K 216 811 000) were fully performing.		
As at 31 December 2017, trade receivables of K 592 480 000(2016: K 580 526 000) 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 2017, trade receivables of K 26 054 000 (2016: K 17 100 000) were impaired. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations.		
The aging analysis of these trade receivables is as follows:		
Up to 3 months	341 545	216 811
3 months to 4 months	592 480	580 526
More than 4 months	26 054	17 100
	<u>960 079</u>	<u>814 437</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	17 100
Increase in allowance for impairment recognised during the year	8 954	-
At 31 December	<u>26 054</u>	<u>17 100</u>
The carrying amounts of the Company's trade and other receivables are denominated in the following currencies		
USD	960 079	814 263
MWK	142 375	369 172
	<u>1 102 454</u>	<u>1 183 435</u>

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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	2017 K'000	2016 K'000
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:		
Purchases from fellow group companies		
Makandi Tea and Coffee Estates Limited	517 164	587 442
Procurement of services		
Corporate fees	51 291	45 303
Management fees - Dhunseri Petrochem & Tea Pte Limited	79 500	71 374
Directors expenses	5 552	3 857
	136 343	120 534
Key management personnel compensation		
Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is as follows:		
Short term employee benefits - salaries and bonuses	203 980	176 320
10.2 The following year end balances arose from transactions with related parties:		
Amounts due to related parties		
Dhunseri Petrochem & Tea Pte Limited	23 986	62 694
Makandi Tea and Coffee Estates Limited	161 879	13 162
	185 865	75 856
There are no outstanding balances due from related parties.		
10.3 Terms and conditions		
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.		
11 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	11 656	27 987
Deposits at call	955	912
	12 611	28 899
<i>Reconciliation to cash flow statement</i>		
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	12 611	28 899
Bank overdraft (note 14)	(439 980)	(904 715)
Cash and cash equivalents per statement of cash flows	(427 369)	(875 816)
<i>Classification as cash equivalents</i>		
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		

KAWALAZI ESTATE COMPANY LIMITED

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	2017 K'000	2016 K'000
12 CAPITAL AND RESERVES		
Authorised		
60 000 000 ordinary shares of K1 each	60 000	60 000
Issued and fully paid:		
33 984 000 ordinary shares of K1 each	33 984	33 984
The 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	299 025	319 280
Payroll liabilities	106 314	102 152
Statutory liabilities	46 895	171 598
General accruals and provisions	110 486	318 020
	562 720	911 050
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 EMPLOYEE BENEFITS OBLIGATIONS		
Pension	1 706	-
Gratuity	24 511	-
	26 217	-
Kawalazi contributes 10% of the employees gross salary while employees contribute 5% of the gross salary. The contributions are remitted to pension manager in line with Pension Act, 2011. The pension obligation above relate to unremitted pension contributions for the month of December 2017.		
Gratuity obligation relates to 5% of the annual income of non pensionable employees.		
15 BORROWINGS		
Bank overdrafts	439 980	904 715
The Company has overdraft facilities of USD 2 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 and expire on 31 October 2018		
16 REVENUE		
Sale of tea	3 779 604	3 431 043
Sale of macadamia	2 048 310	2 018 646
	5 827 914	5 449 689
17 OTHER INCOME		
Sundry sales	62 834	32 639
Insurance claims	27 350	32 615
	90 184	65 254

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NOTES TO THE FINANCIAL STATEMENTS
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	2017 K'000	2016 K'000
(i) Sundry sales		
Sundry sales include proceeds from macadamia dust, oil, tractor hire, maize mill and honey.		
(ii) Insurance claims		
Claims proceed from insurers on fire accidents , burnt factory motors and other electrical equipment and accidents to goods in transit		
17 EXPENSES BY NATURE		
Audit fees	22 597	14 766
Bank charges	39 590	25 103
Clinics	44 423	42 774
Communication	23 555	16 761
Depreciation	500 433	560 002
Directors expenses	5 552	3 857
Entertainment costs	8 717	2 865
Field maintenance costs	766 327	830 170
Harvesting costs	474 887	376 922
Indirect estate costs	300 617	266 814
Insurance	45 301	34 740
Land rent	8 470	8 368
Legal and professional fees	23 697	1 269
Management fees – Dhunseri Petrochem Pte Limited	130 791	116 677
Office and stores costs	16 754	11 141
Outgrower purchases	517 164	574 000
Personnel expenses	7 973	3 054
Power and water costs	29 482	25 326
Primary processing costs	26 828	18 385
Research costs	126	1 008
Salaries and related costs (18.1)	220 253	371 854
Secondary processing costs	927 903	710 033
Security costs	144 189	121 423
Selling and distribution expenses (note 18.2)	340 301	343 233
Stock write-offs	2 554	943
Subscriptions and donations	22 815	23 244
Sundry expenses	179	518
Technical fees	170 451	131 093
Travel and transport	60 275	49 942
Other expenses	2 554	4 534
	<u>4 884 758</u>	<u>4 690 819</u>
DISCLOSED AS		
Cost of sales (note 18.3)	2 930 918	3 001 116
Selling and distribution expenses (note 18.2)	340 301	343 233
Administrative expenses	1 613 529	1 346 470
	<u>4 884 748</u>	<u>4 690 819</u>
18.1 Salaries and related costs		
Salaries-Management	91 026	176 320
Salaries-Other staff	30 229	78 136
Pension costs	23 215	76 768
Overtime	8 591	4 926
Leave and severance pay	40 538	3 527
Staff housing costs	11 174	9 637
Welfare and ration costs	15 480	22 540
	<u>220 253</u>	<u>371 854</u>

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 K'000	2016 K'000
18.2 Selling and distribution expenses		
Transportation and brokerage costs	282 960	288 676
Sample postage charges	15 803	14 179
Cess levy on production and sales	31 313	31 111
Warehouse and handling	10 225	9 267
	<u>340 301</u>	<u>343 233</u>
18.3 Cost of sales		
Harvesting costs	474 887	376 922
Depreciation	200 173	224 792
Field maintenance costs	766 327	830 170
Primary processing costs	26 828	18 385
Indirect estates costs	314 221	266 814
Outgrower purchases	517 164	574 000
Secondary processing costs	631 318	710 033
	<u>2 930 918</u>	<u>3 001 116</u>
19 FINANCE INCOME/(COST)		
19.1 Finance income		
Unrealised exchange gains	<u>27 873</u>	<u>360 000</u>
19.2 Finance cost		
Interest charges	46 385	94 228
Unrealised exchange loss	<u>12 743</u>	<u>424 119</u>
	<u>59 128</u>	<u>518 347</u>
20 INCOME TAX EXPENSE		
20.1 Tax expense		
Current income tax	146 403	139 464
Deferred income tax(credit)/charge	<u>(345 870)</u>	<u>28 713</u>
Income tax (expense)/credit	<u>(199 467)</u>	<u>168 177</u>
The tax on the Company's profit before tax differs from that that would arise using the legislated tax rate as follows:		
Profit before income tax expense	<u>769 939</u>	<u>852 434</u>
Tax at the Malawi tax rate of 30% (2017 - 30%)	230 982	255 730
Tax effects of:		
Disallowable expenses	(296 730)	(96 657)
Tax losses brought forward	-	(113 407)
Permanent differences	<u>(133 719)</u>	<u>122 511</u>
	<u>(199 467)</u>	<u>168 177</u>

KAWALAZI ESTATE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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	2017 K'000	2016 K'000
20.2 Amount owed by/to MRA		
At 1 January	(43 224)	(36 641)
Charge for the year	146 403	139 464
Payments made during the year	49 807	(146 047)
At 31 December 2017	152 986	(43 224)

20.3 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

Deferred income tax assets:

Deferred income tax assets to be recovered after more than 12 months	-	-
Deferred income tax assets to be recovered within 12 months	(422 540)	(76 670)
	(422 540)	(76 670)

Deferred income tax liabilities:

Deferred income tax liability to be recovered after more than 12 months	5 449 218	3 785 759
Deferred income tax liability to be recovered within 12 months	4 429	140 319
	5 453 647	3 926 078

Deferred income tax liability – net

	5 031 107	3 849 408
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The gross movement in the deferred tax account is as follows:

At beginning of year	3 849 408	3 573 409
Charge to equity	1 527 569	247 286
(Credit)/charge to income statement	(345 870)	28 713
At end of year	5 031 107	3 849 408

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 2016	215 107	2 501 858	994 147	(113 407)	(24 296)	3 573 409
Charge to equity	-	305 423	(58 137)	-	-	247 286
Credit to income statement	(74 788)	42 468	-	113 407	(52 374)	28 713
At 31 December 2016	140 319	2 849 749	936 010	-	(76 670)	3 849 408
At 1 January 2017	140 319	2 849 749	936 010	-	(76 670)	3 849 408
Charge to equity	-	637 047	890 522	-	-	1 527 569
Credit to income statement	-	-	-	-	(345 870)	(345 870)
At 31 December 2017	140 319	3 486 796	1 826 532	-	(422 540)	5 031 107

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21 CAPITAL COMMITMENTS

There were no authorised or contracted capital commitments as at 31 December 2017 (2016 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 9 000 000 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.