

**MAKANDI TEA AND COFFEE ESTATES LIMITED**

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

## **MAKANDI TEA AND COFFEE ESTATES LIMITED**

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

### **DIRECTORS**

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

C.K. Dhanuka	Chairman	Full year
M. Dhanuka	Director	Full year
R. Sharma	Director	Full year
M. Beriwala	Director	From 31 March 2017
S. Hara	Group Finance Manager	Full year
S. Nain	Chief Operations Officer	From 31 March 2017
S. Latif, SC	Director	Full year

### **COMPANY SECRETARY**

S. Hara

### **REGISTERED OFFICE**

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

### **AUDITOR**

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

### **LEGAL ADVISOR**

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

### **BANKERS**

National Bank of Malawi  
Standard Bank Limited

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

# MAKANDI TEA AND COFFEE ESTATES LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

The directors are also responsible for such internal control system as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

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


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


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

### Approval of the financial statements

The financial statements of the Group and Company were approved by the Board of Directors on ..... 2018 and are signed on its behalf by:

By order of the Board

  
.....  
DIRECTOR

  
.....  
DIRECTOR



## INDEPENDENT AUDITOR'S REPORT

to the shareholders of

### MAKANDI TEA AND COFFEE ESTATES LIMITED

#### Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Makandi Tea and Coffee Estates Limited ("the Company") as at 31 December 2017, and of its consolidated and separate financial performance and consolidated and its separate 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

Makandi Tea and Coffee Estates Limited's consolidated and separate financial statements set out on pages 5 to 43 comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate 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 consolidated and separate 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with 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 consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

If, based on the work we have performed, 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.

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T: +265 (0) 11 820 322, F: +265 (0) 1 821 215, [www.pwc.com/mw](http://www.pwc.com/mw)

R Mbene – Senior Partner

A list of directors and partners names is available for inspection at the partnership principal business address above.

VAT reg.no. 30843660



### **Responsibilities of the directors for the consolidated and separate financial statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act, (Chapter 46:03), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and 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 Group and/ or Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

*PricewaterhouseCoopers*

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

**Ranwell Mbene**

**Date:** 9 April 2018

## MAKANDI TEA AND COFFEE ESTATES LIMITED

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017

	Note	31 December 2017 K'000	31 December 2016 K'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	24 859 152	17 566 063
<b>Current assets</b>			
Biological assets	6	982 205	802 759
Future crop expenditure	7	60 699	60 140
Inventories	8	1 462 490	1 120 138
Trade and other receivables	9	542 007	910 795
Amounts due from related parties	10	161 879	13 162
Current income tax asset		10 888	14 175
Cash and cash equivalents	11	90 642	12 063
		3 310 810	2 933 232
<b>TOTAL ASSETS</b>		<b>28 169 962</b>	<b>20 499 295</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	13 862	13 862
Share premium		120 935	120 935
Bearer plants revaluation reserve		9 842 340	7 197 070
Biological assets fair value reserve		478 172	352 560
Revaluation reserve		5 241 575	2 454 715
Retained earnings		2 564 042	2 274 167
<b>Total equity</b>		<b>18 260 926</b>	<b>12 413 309</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	13	6 845 116	4 865 694
Deferred acquisition costs	24	167 419	219 145
Long term borrowings	16	544 238	-
		7 556 773	5 084 839
<b>Current liabilities</b>			
Trade and other payables	15	733 727	530 807
Deferred acquisition costs	24	37 268	27 393
Amounts due to related parties	10	31 714	90 077
Current income tax liabilities	23	250 253	466 925
Borrowings	16	1 286 934	1 668 596
Employee benefits liabilities	14	12 367	217 349
<b>Total current liabilities</b>		<b>2 352 263</b>	<b>3 001 147</b>
<b>Total liabilities</b>		<b>9 909 036</b>	<b>8 085 986</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28 169 962</b>	<b>20 499 295</b>

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

by:


  
DIRECTOR


  
DIRECTOR

## MAKANDI TEA AND COFFEE ESTATES LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017

	Note	31 December 2017 K'000	31 December 2016 K'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	23 373 775	16 057 368
Investment in subsidiary		1 064 431	1 064 431
		<u>24 438 206</u>	<u>17 121 799</u>
<b>Current assets</b>			
Biological assets	6	982 205	802 759
Future crop expenditure	7	60 699	60 140
Inventories	8	1 462 490	1 120 138
Trade and other receivables	9	542 007	910 795
Amounts due from related parties	10	161 879	13 162
Cash and cash equivalents	11	90 104	12 063
		<u>3 299 384</u>	<u>2 919 057</u>
<b>TOTAL ASSETS</b>		<u>27 737 590</u>	<u>20 040 856</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	13 862	13 862
Share premium		120 935	120 935
Bearer plants revaluation reserve		9 842 340	7 197 070
Biological asset fair value reserve		478 172	352 560
Revaluation reserve		5 102 364	2 454 715
Retained earnings		2 260 464	1 859 599
<b>Total equity</b>		<u>17 818 137</u>	<u>11 998 741</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	13	6 845 116	4 821 823
Deferred acquisition costs	24	167 419	219 145
Long term borrowings	16	544 238	-
		<u>7 556 773</u>	<u>5 040 968</u>
<b>Current liabilities</b>			
Trade and other payables	15	732 127	529 307
Deferred acquisition costs	24	37 268	27 393
Amounts due to related parties	10	43 731	91 577
Current income tax liabilities	23	250 253	466 925
Borrowings	16	1 286 934	1 668 596
Employee benefits liabilities	14	12 367	217 349
<b>Total current liabilities</b>		<u>2 362 680</u>	<u>3 001 147</u>
<b>Total liabilities</b>		<u>9 919 453</u>	<u>8 042 115</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>27 737 590</u>	<u>20 040 856</u>

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

DIRECTOR

DIRECTOR

## MAKANDI TEA AND COFFEE ESTATES LIMITED

STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017

## CONSOLIDATED

## COMPANY

	Note	2017 K'000	2016 K'000	2017 K'000	2016 K'000
Revenue	17	6 936 936	6 856 705	6 936 936	6 856 705
Cost of sales	18	( 4 338 911)	( 3 961 146)	( 4 338 911)	( 3 961 146)
<b>Gross profit</b>		<b>2 598 025</b>	<b>2 895 559</b>	<b>2 598 025</b>	<b>2 895 559</b>
Distribution costs	19	( 196 368)	( 142 016)	( 196 368)	( 142 016)
Administrative expenses	21	( 1 606 685)	( 1 501 846)	( 1 591 059)	( 1 501 537)
Other income	20	14 647	20 288	14 503	20 288
Loss on revaluation of plant and equipment		( 772)	-	-	-
Gain/(losses) arising from changes in fair value of biological assets	6	179 446	( 186 780)	179 446	( 186 780)
Loss on disposal of bearer plants		( 135 320)	-	-	-
Gain on acquisition of subsidiary	24	-	414 877	-	-
<b>Operating profit</b>		<b>852 973</b>	<b>1 500 082</b>	<b>1 004 547</b>	<b>1 085 514</b>
Finance income	22	40 828	143 562	40 828	143 562
Finance costs	22	( 112 941)	( 237 715)	( 112 941)	( 237 715)
<b>Profit before income tax</b>		<b>780 860</b>	<b>1 405 929</b>	<b>932 434</b>	<b>991 361</b>
Income tax expense	23	( 284 745)	( 393 749)	( 325 329)	( 393 749)
<b>Profit for the year</b>		<b>496 115</b>	<b>1 012 180</b>	<b>607 105</b>	<b>597 612</b>
<b>Other comprehensive income</b>					
Items that may subsequently be reclassified to profit or loss		-	-	-	-
<b>Items that will not be reclassified to profit or loss</b>					
Plantations fair value reserve transferred		3 778 957	1 318 152	3 778 957	1 318 152
Deferred income tax on fair value reserve transferred		( 1 133 687)	( 447 836)	( 1 133 687)	( 447 836)
		<b>2 645 270</b>	<b>870 316</b>	<b>2 645 270</b>	<b>870 316</b>
<b>Total comprehensive income for the year</b>		<b>3 141 385</b>	<b>1 882 496</b>	<b>3 252 375</b>	<b>1 467 928</b>



**MAKANDI TEA AND COFFEE ESTATES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Year ended 31 December 2016**

**At 1 January 2016**

**Comprehensive income for the year:**  
**Profit for the year**

**Total other comprehensive income for the year:**

Revaluation gain on bearer plants  
Deferred income tax revaluation gain  
Plantations fair value reserve transferred  
Deferred income tax on fair value reserve transferred  
Transfer of excess depreciation

	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
13 862		120 935	6 326 754	208 525	2 597 925	1 262 812	10 530 813
-		-	-	-	-	1 012 180	1 012 180
-		-	870 316	144 035	( 143 210)	( 825)	870 316
-		-	1 318 152 ( 447 836)	-	-	-	1 318 152 ( 447 836)
-		-	-	205 764 ( 61 729)	-	( 205 764)	-
-		-	-	-	-	61 729	-
-		-	-	-	( 143 210)	143 210	-
13 862		120 935	7 197 070	352 560	2 454 715	2 274 167	12 413 309

**At 31 December 2016**

**Year ended 31 December 2017**

**At 1 January 2017**

**Comprehensive income for the year:**  
**Profit for the year**

**Total other comprehensive income for the year:**

Revaluation gain on bearer plants  
Deferred income tax on fair value reserve on bearer assets  
Plantations fair value reserve transferred  
Deferred income tax revaluation gain  
Deferred income tax on fair value reserve transferred  
Transfer of excess depreciation  
Dividend paid

13 862	120 935	7 197 070	352 560	2 454 715	2 274 167	12 413 309
-	-	-	-	-	496 115	496 115
-	-	2 645 270	125 612	2 786 860	( 206 240)	5 351 502
-	-	3 778 957	-	3 586 634	-	7 365 591
-	-	( 1 133 687)	-	-	-	( 1 133 687)
-	-	-	179 446	-	( 179 446)	-
-	-	-	( 53 834)	( 799 774)	-	( 799 774)
-	-	-	-	-	53 834	-
-	-	-	-	-	( 80 628)	( 80 628)
13 862	120 935	9 842 340	478 172	5 241 575	2 564 042	18 260 926

**At 31 December 2017**

MAKANDI TEA AND COFFEE ESTATES LIMITED  
COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Year ended 31 December 2016

At 1 January 2016

Comprehensive income for the year:  
Profit for the year

Total other comprehensive income for the year:  
Revaluation gain on bearer plants  
Deferred income tax revaluation gain of bearer plants  
Plantations fair value reserve transferred  
Deferred income tax on fair value reserve transferred  
Transfer of excess depreciation

At 31 December 2016

Year ended 31 December 2017

At 1 January 2017

Comprehensive income for the year:  
Profit for the year

Total other comprehensive income for the year:  
Revaluation gain on bearer plants  
Deferred income tax on fair value reserve on bearer assets  
Revaluation gain on property and equipment  
Deferred income tax on revaluation gain  
Biological assets fair value reserve transferred  
Deferred income tax on fair value reserve transferred  
Transfer of excess depreciation  
Dividend paid

At 31 December 2017

Share capital K'000	Share premium K'000	Bearer plant revaluation reserve K'000	Plantation fair value reserve K'000	Revaluation reserve K'000	Retained earnings K'000	Total K'000
13 862	120 935	6 326 754	208 525	2 597 925	1 262 812	10 530 813
-	-	-	-	-	597 612	597 612
-	-	870 316	144 035	( 143 210)	( 825)	870 316
-	-	1 318 152	-	-	-	1 318 152
-	-	( 447 836)	-	-	-	( 447 836)
-	-	-	205 764	-	( 205 764)	-
-	-	-	( 61 729)	-	61 729	-
-	-	-	-	( 143 210)	143 210	-
13 862	120 935	7 197 070	352 560	2 454 715	1 859 599	11 998 741
13 862	120 935	7 197 070	352 560	2 454 715	1 859 599	11 998 741
-	-	-	-	-	607 105	607 105
-	-	2 645 270	125 612	2 647 649	( 206 240)	5 212 291
-	-	3 778 957	-	-	-	3 778 957
-	-	( 1 133 687)	-	-	-	( 1 133 687)
-	-	-	-	3 447 423	-	3 447 423
-	-	-	-	( 799 774)	-	( 799 774)
-	-	-	179 446	-	( 179 446)	-
-	-	-	( 53 834)	-	53 834	-
-	-	-	-	-	( 80 628)	( 80 628)
13 862	120 935	9 842 340	478 172	5 102 364	2 260 464	17 818 137

## MAKANDI TEA AND COFFEE ESTATES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 K'000	2016 K'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax		780 860	1 405 929
Adjustments for:			
- Fair value (gains)/losses on biological assets	6	( 44 049)	186 780
- Depreciation	5	903 329	853 212
- Interest payable	22	107 696	100 483
- Gain on acquisition of subsidiary		-	( 414 877)
- Loss / (gain) on disposal of property, plant and equipment		65 714	( 1 422)
- Unrealised exchange gain		( 3 805)	( 30 469)
- Unrealised exchange losses		5 014	14 393
<b>Changes in working capital</b>			
(Increase)/decrease in future crop expenditure		( 559)	10 081
Increase in inventories		( 342 352)	( 222 738)
Decrease/(increase) in trade and other receivables		372 593	( 254 664)
(Increase)/decrease in amounts due from related parties		( 148 717)	56 685
Increase/(decrease) in trade and other payables		197 906	( 148 893)
Decrease in amounts due to related parties		( 58 363)	( 20 825)
(Decrease)/increase in employee benefit liabilities		( 204 982)	54 859
<b>Cash generated from operations</b>		<u>1 630 285</u>	<u>1 588 534</u>
Interest paid	22	( 107 696)	( 100 483)
Taxation paid	23	( 452 170)	( 217)
<b>Net cash flows generated from operating activities</b>		<u>1 070 419</u>	<u>1 487 834</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of subsidiary	24	( 31 009)	( 817 893)
Purchase of property, plant and equipment	5	( 1 076 007)	( 907 519)
Proceeds from disposal of property, plant and equipment		<u>33 228</u>	<u>3 400</u>
<b>Net cash flows from investing activities</b>		<u>( 1 073 788)</u>	<u>( 1 722 012)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term borrowings		725 650	-
Dividend paid		( 80 628)	-
<b>Net cash flows generated from financing activities</b>		<u>645 022</u>	<u>-</u>
<b>Net Increase/(decrease) in cash and cash equivalents</b>		641 653	( 234 178)
Cash and cash equivalents at beginning of the year		<u>( 1 656 533)</u>	<u>( 1 422 355)</u>
<b>Cash and cash equivalents at end of the year</b>	11	<u>( 1 014 880)</u>	<u>( 1 656 533)</u>
<b>Movement in working capital as defined by legislation</b>			
Excess of current assets over current liabilities at the beginning of the year		1 829 221	( 160 774)
Excess of current assets over current liabilities at the end of the year		( 870 674)	( 709 900)
		<u>958 547</u>	<u>( 870 674)</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 K'000	2016 K'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax		932 434	991 361
Adjustments for:			
- Fair value gains on biological assets	6	( 179 446)	186 780
- Depreciation	5	887 038	852 903
- Interest payable	22	107 696	100 483
- Loss / (gain) on disposal of property, plant and equipment		65 714	( 1 422)
- Unrealised exchange gain		( 3 805)	( 30 469)
- Unrealised exchange losses		5 014	14 393
<b>Changes in working capital</b>			
(Increase)/decrease in future crop expenditure		( 559)	10 081
Increase in inventories		( 342 352)	( 222 738)
Decrease/(increase) in trade and other receivables		372 593	( 254 664)
(Increase)/decrease in amounts due from related parties		( 148 717)	56 685
Increase/(decrease) in trade and other payables		197 807	( 150 393)
Decrease in amounts due to related parties		( 47 846)	( 19 325)
(Decrease)/increase in employee benefit liabilities		( 204 982)	54 859
<b>Cash generated from operations</b>		1 640 589	1 588 534
Interest paid	22	( 107 696)	( 100 483)
Taxation paid	23	( 452 170)	( 217)
<b>Net cash flows generated from/(utilised in) operating activities</b>		1 080 723	1 487 834
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of subsidiary	24	( 41 851)	( 817 893)
Purchase of property, plant and equipment	5	( 1 076 007)	( 907 519)
Proceeds from disposal of property, plant and equipment		33 228	3 400
<b>Net cash flows utilised in investing activities</b>		( 1 084 630)	( 1 722 012)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term borrowings		725 650	-
Dividend paid		( 80 628)	-
<b>Net cash flows utilised in financing activities</b>		645 022	-
<b>Net Increase / decrease in cash and cash equivalents</b>		641 115	( 234 178)
Cash and cash equivalents at beginning of the year		( 1 656 533)	( 1 422 355)
<b>Cash and cash equivalents at end of the year</b>	11	( 1 015 418)	( 1 656 533)
<b>Movement in working capital as defined by legislation</b>			
Excess of current assets over current liabilities at the beginning of the year		( 884 849)	( 709 900)
Excess of current assets over current liabilities at the end of the year		936 704	( 884 849)

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**1 GENERAL INFORMATION**

Makandi Tea and Coffee Estates Limited ("the Company") and its subsidiaries (together, "the Group") grow and sell tea and macadamia. The Company owns 100% of AM Henderson and Sons Limited issued shares.

Makandi Tea and Coffee Estates Limited is a private Company, incorporated in Malawi. It is a subsidiary of Dhunseri Petrochem and Tea Pte Limited which is 100% ultimately owned by Dhunseri Tea & Industries Ltd.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**2.1.1 Changes in accounting policy and disclosures**

- a) **New standards, amendments and interpretations effective for the first time for 31 December 2017 year ends that are relevant to the Company;**

Standard/interpretation	Effective date	Executive summary
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.
Annual improvements 2014-2016 (part)	Annual periods beginning on or after 1 January 2017 (published December 2016)	These amendments impact 3 standards, one being applicable in 2017: 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.
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.

These new standards, amendments and interpretations do not have a material impact on the Company.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation (continued)

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

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

There are no new standards, amendments and interpretations effective for the first time for 31 December 2017 year ends that are not relevant to the Company.

Standard/interpretation	Effective date	Executive summary
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)	<p>These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:</p> <p>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</p> <p>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.</p>

- c) New standards, amendments and interpretations issued but not effective for 31 December 2017 year ends that are relevant to the Company but have not been early adopted by the Company;

Standard/interpretation	Effective date	Executive summary
IFRS 9 – Financial Instruments (2009 & 2010) <ul style="list-style-type: none"> <li>Financial liabilities</li> <li>Derecognition of financial instruments</li> <li>Financial assets</li> </ul> General hedge accounting	Annual periods beginning on or after 1 January 2018 (published July 2014)	<p>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, current incurred loss impairment model.</p>
Amendment to IFRS 9 'Financial instruments', - general hedging accounting	Annual periods beginning on or after 1 January 2018	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>The own credit risk requirements for financial liabilities.</li> <li>Classification and measurement (C&amp;M) requirements for financial assets.</li> <li>C&amp;M requirements for financial assets and financial liabilities.</li> <li>The full current version of IFRS 9 (that is, C&amp;M requirements for financial assets and financial liabilities and hedge accounting).</li> </ul> <p>The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9.</p>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation (continued)

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

- c) New standards, amendments and interpretations issued but not effective for 31 December 2017 year ends that are relevant to the Company but have not been early adopted by the Company (continued);

Standard/interpretation	Effective date	Executive summary
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)	<p>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' exemption can only be applied by lessees.</p> <p>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.</p> <p>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.</p> <p>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>



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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

## 2.1 Basis of preparation (continued)

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

- d) New and amended standards and interpretations issued but not effective for 31 December 2017 year ends and are not relevant to the Company (continued)

Standard/interpretation	Effective date	Executive summary
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)	<p>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.</p> <p>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.</p>
Amendments to IAS 28, 'Investments in associates and joint ventures' long-term interests in associates and joint ventures.	Annual periods beginning on or after 1 January 2019 (published October 2017)	<p>The amendments clarified that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.</p> <p>The amendments are effective from 1 January 2019, with early application permitted</p>
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	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 with a share-based payment and pay that amount to the tax authority.

## e) Improvements to IFRS

## Annual improvements 2014, issued September 2014

The IASB issued annual improvements arising from the IFRS 2012 - 2014 reporting cycle which contain five amendments to four standards, excluding consequential amendments. The amendments are effective for annual reporting periods beginning on or after 1 January 2016;

Annual improvements	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.
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.



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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

## 2.1 Basis of preparation (continued)

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

## (d) Annual improvements 2014, issued September 2014 (continued)

Annual improvements	Effective date	Executive summary
Annual improvements 2014-2016	Annual periods beginning on or after 1 January 2018 (published December 2016)	<p>These amendments impact 2 standards:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>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</li> </ul>
Annual improvements cycle 2015-2017	Annual periods beginning on or after 1 January 2019 (published December 2017)	<p>These amendments include minor changes to:</p> <ul style="list-style-type: none"> <li>- IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business.</li> <li>- IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.</li> <li>- IAS 12, 'Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.</li> <li>IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.</li> </ul>

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

## 2.2 Consolidation

**Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by- acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

**MAKANDI TEA AND COFFEE ESTATES LIMITED**
**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**
**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.2 Consolidation (continued)**
**Subsidiaries (continued)**

Acquisition – related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

**2.3 Foreign currency translation**
**a) Functional and presentation currency**

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

**b) Transactions and balances**

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

**2.4 Property, plant and equipment**

Land and buildings comprise mainly bearer plants, factories, retail outlets and offices. All property, plant and equipment is shown at fair value, based on valuation by external independent valuers, less subsequent depreciation. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and net amount is restated to the revalued amount of the asset. At initial recognition all items of property plant and equipment are recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Tea bushes, macadamia trees and timber are classified as immature until the produce or 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 until they start to be commercially harvested.

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

**MAKANDI TEA AND COFFEE ESTATES LIMITED**
**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**
**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.5 Property, plant and equipment (continued)**

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

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

**2.6 Biological assets**

Biological assets comprise of timber, tea and macadamia nuts growing on tea bushes and macadamia trees respectively. Timber, tea and macadamia on hand are measured at their fair value less costs to sell. Costs to sell include the incremental selling costs, including auctioneer's fees, commission paid to brokers and dealers and established costs of transport to the market but excludes finance costs and income taxes.

The tea bushes and macadamia trees are bearer plants and are therefore presented and accounted for as property, plant and equipment. However, the fresh fruit/produce growing on the bushes or trees is accounted for as biological assets until the point of harvest. Timber that has been grown for 6 years is regarded as biological assets as it can be sold or used commercially. Harvested fresh produce is transferred to inventory at fair value less cost to sell when harvested.

The fair value of timber, tea and macadamia is determined based on the present value of expected net cash flows from the plantations discounted at a current market-determined pre-tax rate adjusted for a long term view. Fair value movements include increased yields as plants and trees mature, exchange movements and price movements reduced with cost increases expected. Fair value adjustment are transferred from retained earnings to a plantation revaluation reserve in equity.

**2.7 Future crop expenditure**

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

**2.8 Impairment of non-financial assets**

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

**2.9 Financial assets**
**2.9.1 Classification**

The Group 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.

**2.9 Financial assets**
**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 Group's loans and receivables comprise trade and other receivables, amounts due from related parties and cash and cash equivalents in the statement of financial position.

**2.9.2 Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group 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 Group 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.

## MAKANDI TEA AND COFFEE ESTATES LIMITED

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

##### 2.9.3 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.

##### 2.10 Impairment of financial assets

###### Assets carried at amortised cost

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

##### 2.11 Inventories

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

##### 2.12 Trade and other receivables

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

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.

##### 2.13 Cash and cash equivalents

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

##### 2.14 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.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**
**2.15 Trade and other payables**

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

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

**2.16 Borrowings**

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

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

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

**2.17 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

**2.18 Current and deferred income tax**

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.19 Employee benefits****(a) Short term employee benefits**

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

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

**(b) Pension plan**

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

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

**(c) Bonus plans**

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

**(d) Termination benefits**

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

**(e) Gratuity**

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

**2.20 Provisions**

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

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

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

**2.21 Dividend distribution**

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

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

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.22 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 Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

## 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 collection or delivery. Delivery occurs when the products are shipped to their specified locations and the buyer has accepted ownership.

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

## (b) Interest income

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

## 2.23 Rounding of amounts

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

## 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

## 3.1 Bearer plants and biological assets

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

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

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

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 percentage variation in each of the significant unobservable inputs used to measure the fair value of the biological assets on 31 December 2017

	CONSOLIDATED Impacts in the fair value resulting from	COMPANY Impacts in the fair value resulting from
	5% Increase	5% decrease
Significant variable inputs	K'000	K'000
Average yield - 5%	( 425 280)	( 425 280)
Average sales price - 5%	( 2 718 472)	( 2 718 472)
Discounting rate - 1%	2 980 208	2 980 208

## MAKANDI TEA AND COFFEE ESTATES LIMITED

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

##### 3.3 Income taxes

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

#### 4 FINANCIAL RISK MANAGEMENT

##### 4.1 Financial risk factors

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

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

##### 4.2 Market risk

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

##### 4.2.1 Foreign exchange risk

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

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

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



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT

## 4.2.1 Foreign exchange risk (continued)

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

	USD Amount	K 000 Equivalent
<b>CONSOLIDATED</b>		
<b>At 31 December 2016</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	855 189	620 568
Amounts due from related parties	18 138	13 162
Cash and cash equivalents	15 503	11 250
	<u>888 831</u>	<u>644 980</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	106 298	77 135
Amounts due to related parties	126 200	91 577
Borrowings	2 275 007	1 650 859
	<u>2 507 505</u>	<u>1 742 436</u>
<b>Net on financial position</b>	<u>( 1 618 674)</u>	<u>( 1 097 456)</u>
<b>At 31 December 2017</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	437 116	317 097
Amounts due from related parties	223 149	161 879
Cash and cash equivalents	33 176	24 074
	<u>693 441</u>	<u>503 050</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	639 498	463 911
Amounts due to related parties	43 717	31 714
Borrowings	1 523 954	1 105 522
	<u>2 207 169</u>	<u>1 601 147</u>
<b>Net on financial position</b>	<u>( 1 513 728)</u>	<u>( 1 098 097)</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.2.1 Foreign exchange risk (Continued)

	USD Amount	K 000 Equivalent
<b>COMPANY</b>		
<b>At 31 December 2016</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	933 957	620 568
Amounts due from related parties	19 809	13 162
Cash and cash equivalents	16 931	11 250
	<u>970 698</u>	<u>644 980</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	116 088	77 135
Amounts due to related parties	135 566	90 077
Borrowings	2 484 550	1 650 859
	<u>2 736 204</u>	<u>1 818 071</u>
<b>Net on financial position</b>	<u>( 1 765 507)</u>	<u>( 1 173 091)</u>
<b>At 31 December 2017</b>		
<b>Financial assets</b>		
Trade and other receivables (excluding prepayments)	437 116	317 097
Amounts due from related parties	223 149	161 879
Cash and cash equivalents	33 186	24 074
	<u>693 451</u>	<u>503 050</u>
<b>Financial liabilities</b>		
Trade and other payables (excluding statutory liabilities)	639 498	463 911
Amounts due to related parties	60 283	43 731
Borrowings	2 524 257	1 831 172
	<u>3 224 038</u>	<u>2 338 814</u>
<b>Net on financial position</b>	<u>( 2 530 587)</u>	<u>( 1 835 764)</u>

At 31 December 2017, if currency had weakened or strengthened by 5% against the foreign currencies with all other variables held constant, the effect on post-tax (loss)/profit for the year would be K183.57 million (2016: K 117.30 million)

## 4.2.2 Price risk

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

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

## 4.2.3 Cash flow and fair value interest rate risk

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

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

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

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

**Interest rate risk sensitivity analysis**

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

	CONSOLIDATED		COMPANY	
	Effect on profit before income tax 2017 K'000	Effect on profit before income tax 2016 K'000	Effect on profit before income tax 2017 K'000	Effect on profit before income tax 2016 K'000
<b>Interest rate change</b>				
2 % increase	( 36 623)	( 25 739)	( 33 372)	( 25 739)
2 % decrease	36 623	25 739	33 372	25 739

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

4.3 **Credit risk**

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

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

	CONSOLIDATED		COMPANY	
	2017 K'000	2016 K'000	2017 K'000	2016 K'000
Trade and other receivables (excluding prepayments)	328 036	632 427	328 036	632 427
Amounts due from related parties	161 879	13 162	161 879	13 162
Cash and cash equivalents	84 858	12 063	84 320	12 063
	<u>574 773</u>	<u>657 652</u>	<u>574 235</u>	<u>657 652</u>

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

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

4.4 **Liquidity risk management**

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.4 Liquidity risk management (continued)

## CONSOLIDATED

At 31 December 2017

	Up to 1 month K'000	6 to 12 months K'000	above 12 months K'000	Total K'000
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	328 036	-	-	328 036
Amounts due from related parties	161 879	-	-	161 879
Cash and cash equivalents	90 642	-	-	90 642
<b>Total financial assets</b>	<b>580 557</b>	<b>-</b>	<b>-</b>	<b>580 557</b>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	702 075	-	-	702 075
Borrowings	1 286 934	-	544 238	1 831 172
Amounts due to related parties	31 714	-	-	31 714
<b>Total financial liabilities</b>	<b>2 020 723</b>	<b>-</b>	<b>544 238</b>	<b>2 564 961</b>
<b>Periodic gap</b>	<b>( 1 440 166)</b>	<b>-</b>	<b>( 544 238)</b>	<b>( 1 984 404)</b>
<b>Cumulative gap</b>	<b>( 1 440 166)</b>	<b>( 1 440 166)</b>	<b>( 1 984 404)</b>	

At 31 December 2016

<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	632 427	-	-	632 427
Amounts due from related parties	13 162	-	-	13 162
Cash and cash equivalents	12 063	-	-	12 063
<b>Total financial assets</b>	<b>657 652</b>	<b>-</b>	<b>-</b>	<b>657 652</b>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	591 625	-	-	591 625
Borrowings	1 286 934	-	-	1 286 934
Amounts due to related parties	90 077	-	-	90 077
<b>Total financial liabilities</b>	<b>1 968 636</b>	<b>-</b>	<b>-</b>	<b>1 968 636</b>
<b>Periodic gap</b>	<b>( 1 310 984)</b>	<b>-</b>	<b>-</b>	<b>( 1 310 984)</b>
<b>Cumulative gap</b>	<b>( 1 310 984)</b>	<b>( 1 310 984)</b>	<b>( 1 310 984)</b>	

## COMPANY

At 31 December 2017

<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	328 036	-	-	328 036
Amounts due from related parties	161 879	-	-	161 879
Cash and cash equivalents	90 104	-	-	90 104
<b>Total financial assets</b>	<b>580 019</b>	<b>-</b>	<b>-</b>	<b>580 019</b>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	700 475	-	-	700 475
Borrowings	1 668 596	-	544 238	2 212 834
Amounts due to related parties	43 731	-	-	43 731
<b>Total financial liabilities</b>	<b>2 412 802</b>	<b>-</b>	<b>544 238</b>	<b>2 957 040</b>
<b>Periodic gap</b>	<b>( 1 832 783)</b>	<b>-</b>	<b>( 544 238)</b>	<b>( 2 377 021)</b>
<b>Cumulative gap</b>	<b>( 1 832 783)</b>	<b>( 1 832 783)</b>	<b>( 2 377 021)</b>	

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

COMPANY (CONTINUED)	Up to 1 month K'000	6 to 12 months K'000	above 12 months K'000	Total K'000
<b>At 31 December 2016</b>				
<b>Financial assets</b>				
Trade and other receivables (excluding prepayments)	632 427	-	-	632 427
Amounts due from related parties	13 162	-	-	13 162
Bank and cash equivalents	12 063	-	-	12 063
<b>Total financial assets</b>	<b>657 652</b>	<b>-</b>	<b>-</b>	<b>657 652</b>
<b>Financial liabilities</b>				
Trade and other payables (excluding statutory liabilities)	614 781	-	-	614 781
Borrowings	1 831 172	-	-	1 831 172
Amounts due to related parties	91 577	-	-	91 577
<b>Total financial liabilities</b>	<b>2 537 530</b>	<b>-</b>	<b>-</b>	<b>2 537 530</b>
<b>Periodic gap</b>	<b>( 1 879 878)</b>	<b>-</b>	<b>-</b>	<b>( 1 879 878)</b>
<b>Cumulative gap</b>	<b>( 1 879 878)</b>	<b>( 1 879 878)</b>	<b>( 1 879 878)</b>	

## 4.5 Capital risk management

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

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

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

The gearing ratios at 31 December were as follows:

	CONSOLIDATED		COMPANY	
	2017 K'000	2016 K'000	2017 K'000	2016 K'000
Total borrowings	1 831 172	1 668 596	1 831 172	1 668 596
Less: cash and cash equivalents	( 90 642)	( 12 063)	( 90 104)	( 12 063)
Net debt	1 740 530	1 656 533	1 741 068	1 656 533
Equity	18 260 926	12 413 309	17 818 137	11 998 741
Total capital	20 001 456	14 069 842	19 559 205	13 655 274
Net debt to equity ratio	9%	12%	9%	12%

## 4.6 Agricultural risk management

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

## 4.7 Fair value hierarchy

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

**Quoted market prices - Level 1**

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

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 4.7 Fair value hierarchy (continued)

**Valuation technique using observable inputs - Level 2**

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

**Valuation technique using significant and unobservable inputs - Level 3**

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

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

The Group had no financial assets or liabilities carried at fair value as at 31 December 2017 (2016: K nil).

At 31 December 2017 the Group had biological assets amounting to K1 042 904 000 (2016:K802 759 000) classified under level 3

**Comparison of carrying amounts and fair values for assets and liabilities not held at fair value**

The fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

4.8 Financial instruments by category	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
<b>Assets as per statement of financial position</b>				
<b>Loans and receivables:</b>				
Trade and other receivables (excluding prepayments)	328 036	632 427	328 036	632 427
Amounts due from related parties	161 879	13 162	161 879	13 162
Cash and cash equivalents	90 642	12 063	90 104	12 063
	<u>580 557</u>	<u>657 652</u>	<u>580 019</u>	<u>657 652</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)	702 075	591 625	614 781	462 046
Amounts due to related parties	31 714	90 077	43 731	91 577
Borrowings	1 831 172	1 668 596	1 831 172	1 668 596
	<u>2 564 961</u>	<u>2 350 298</u>	<u>2 489 684</u>	<u>2 222 219</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED

Year ended 31 December 2016

Opening net book amount

Additions

Revaluation surplus

Assets on acquisition of subsidiary

Disposals

- Cost

- Accumulated depreciation

Depreciation charge

Closing net book amount

At 31 December 2016

Cost/valuation

Accumulated depreciation

Closing net book amount

Year ended 31 December 2017

Opening net book amount

Additions

Revaluation surplus

Assets on acquisition of subsidiary

Disposals

- Cost

- Accumulated depreciation

Depreciation charge

Closing net book amount

At 31 December 2017

Cost/valuation

Accumulated depreciation

Closing net book amount

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

The Company movable and immovable assets including property, plant and equipment are pledged as collateral for bank overdraft (note 11)

	Freehold land K'000	Freehold buildings K'000	Plant equipment and furniture K'000	Motor vehicles K'000	Bearer plants Mature K'000	Immature K'000	Total K'000
Year ended 31 December 2016							
Opening net book amount	488 528	890 069	2 793 773	715 240	9 016 414	782 554	14 686 578
Additions	-	4 212	100 194	42 590	-	760 523	907 519
Revaluation surplus	-	-	-	-	1 318 152	-	1 318 152
Assets on acquisition of subsidiary	1 103 353	240 739	18 675	-	146 237	-	1 509 004
Disposals	-	-	-	( 4 500)	-	-	( 4 500)
- Cost	-	-	-	2 522	-	-	2 522
- Accumulated depreciation	-	( 42 986)	( 248 464)	( 46 094)	( 515 668)	-	( 853 212)
Depreciation charge	-	-	-	-	-	-	-
Closing net book amount	1 591 881	1 092 034	2 664 178	709 758	9 965 135	1 543 077	17 566 063
At 31 December 2016							
Cost/valuation	1 591 881	1 178 468	3 116 554	842 124	10 480 803	1 543 077	18 752 907
Accumulated depreciation	-	( 86 434)	( 452 376)	( 132 366)	( 515 668)	-	( 1 186 844)
Closing net book amount	1 591 881	1 092 034	2 664 178	709 758	9 965 135	1 543 077	17 566 063
Year ended 31 December 2017							
Opening net book amount	1 591 881	1 092 034	2 664 178	709 758	9 965 135	1 543 077	17 566 063
Additions	-	3 666	132 830	91 925	-	847 586	1 076 007
Revaluation surplus	802 763	983 274	1 998 717	( 198 120)	3 443 214	189 505	7 219 353
Assets on acquisition of subsidiary	-	-	-	-	-	-	-
Disposals	-	-	-	( 183 350)	-	-	( 183 350)
- Cost	-	-	-	84 408	-	-	84 408
- Accumulated depreciation	-	( 55 156)	( 201 398)	( 83 634)	( 563 141)	-	( 903 329)
Depreciation charge	-	-	-	-	-	-	-
Closing net book amount	2 394 644	2 023 818	4 594 327	420 987	12 845 208	2 580 168	24 859 152
At 31 December 2017							
Cost/valuation	2 394 644	2 023 818	4 594 327	420 987	12 845 208	2 580 168	24 859 152
Accumulated depreciation	-	-	-	-	-	-	-
Closing net book amount	2 394 644	2 023 818	4 594 327	420 987	12 845 208	2 580 168	24 859 152

5 PROPERTY, PLANT AND EQUIPMENT

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

The Company movable and immovable assets including property, plant and equipment are pledged as collateral for bank overdraft (note 16)



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

CONSOLIDATED	At Cost K'000	Accumulated depreciation K'000	Total K'000
Freehold land	1 591 881	-	1 591 881
Freehold buildings	1 182 134	86 434	1 095 700
Plant, equipment and furniture	3 116 554	141 590	2 974 964
Motor vehicles	750 699	131 592	619 107
	<u>6 641 268</u>	<u>359 616</u>	<u>6 281 652</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

COMPANY	At Cost K'000	Accumulated depreciation	Total K'000
Freehold land	488 528	-	488 528
Freehold buildings	941 395	129 459	811 936
Plant, equipment and furniture	3 230 709	650 841	2 579 868
Motor vehicles	750 699	130 056	620 643
	<u>5 411 331</u>	<u>910 356</u>	<u>4 500 975</u>

## 6 BIOLOGICAL ASSETS - PLANTATIONS

CONSOLIDATED	Tea K'000	Macadamia K'000	Timber K'000	Total K'000
Year ended 31 December 2016				
Mature plantations				
Carrying amount at 1 January	111 439	186 454	691 646	989 539
Fair value adjustment	<u>34 105</u>	<u>( 72 368)</u>	<u>( 148 517)</u>	<u>( 186 780)</u>
Carrying amount at 31 December 2016	<u>145 544</u>	<u>114 086</u>	<u>543 129</u>	<u>802 759</u>
Year ended 31 December 2017				
Mature plantations				
Carrying amount at 1 January	145 544	114 086	543 129	802 759
Fair value adjustment	<u>35 941</u>	<u>181 727</u>	<u>( 38 222)</u>	<u>179 446</u>
Carrying amount at 31 December 2017	<u>181 485</u>	<u>295 813</u>	<u>504 907</u>	<u>982 205</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 6 BIOLOGICAL ASSETS - PLANTATIONS (CONTINUED)

COMPANY	Tea K'000	Macadamia K'000	Timber K'000	Total K'000
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## Year ended 31 December 2016

## Mature plantations

Carrying amount at 1 January	111 439	186 454	691 646	989 539
Fair value adjustment	34 105	( 72 368)	( 148 517)	( 186 780)

Carrying amount at 31 December 2016	145 544	114 086	543 129	802 759
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## Year ended 31 December 2017

## Mature plantations

Carrying amount at 1 January	145 544	114 086	543 129	802 759
Fair value adjustment	35 941	181 727	( 38 222)	179 446

Carrying amount at 31 December 2017	181 485	295 813	504 907	982 205
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## CONSOLIDATED

## Plantation areas

## At 31 December 2017

	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 897	304	178	2 379
Immature	145	405	498	1 048
	2 042	709	676	3 427

Kilograms      Kilograms      Cubic meters

Output of agricultural produce during the year (Kg)	5 366 238	155 736	5 176
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## Plantation areas

## At 31 December 2016

	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 878	304	60	2 242
Immature	145	303	605	1 053
	2 023	607	665	3 295

Kilograms      Kilograms      Cubic meters

Output of agricultural produce during the year (Kg)	5 600 292	155 047	6 309
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## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 6 BIOLOGICAL ASSETS - PLANTATIONS (CONTINUED)

## COMPANY

## Plantation areas

At 31 December 2017

	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 897	304	178	2 379
Immature	145	405	498	1 048
	<u>2 042</u>	<u>709</u>	<u>676</u>	<u>3 427</u>
	Kilograms	Kilograms	Cubic meters	
Output of agricultural produce during the year (Kg)	5 366 238	155 736	3 963	

At 31 December 2016

## Plantation areas

	Tea Hectares	Macadamia Hectares	Timber Hectares	Total Hectares
Mature	1 878	304	60	2 242
Immature	145	303	605	1 053
	<u>2 023</u>	<u>607</u>	<u>665</u>	<u>3 295</u>
	Kilograms	Kilograms	Cubic meters	
Output of agricultural produce during the year (Kg)	5 600 292	155 047	6 309	

Immature tea is less than three years old. Immature macadamia nut trees are less than seven years old.

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

The biological assets were revalued as at 31 December 2017 on behalf of directors by Dick Mpambireyi, MRICS, a qualified valuer of Interval Services (Proprietary) Limited based in Botswana. The basis of valuation was market value assuming continuing present usage. In the opinion of directors, these amounts approximate the fair value of property, plant and equipment at the reporting date.

The Company movable and immovable assets including biological assets are pledged as collateral for bank overdraft (note 16)

## CONSOLIDATED

## COMPANY

2017  
K'0002016  
K'0002017  
K'0002016  
K'000

## 7 FUTURE CROP EXPENDITURE

At beginning of the year	60 140	70 221	60 140	70 221
Additions during the year	60 699	60 140	60 699	60 140
Transfer to produce inventories on harvesting	<u>( 60 140)</u>	<u>( 70 221)</u>	<u>( 60 140)</u>	<u>( 70 221)</u>
At end of the year	<u>60 699</u>	<u>60 140</u>	<u>60 699</u>	<u>60 140</u>

## 8 INVENTORIES

Sundry consumables	832 927	704 187	832 927	704 187
Agricultural produce	377 697	243 846	377 697	243 846
Tea nursery	167 531	111 654	167 531	111 654
Macadamia nursery	80 239	59 168	80 239	59 168
Forestry nursery	<u>4 096</u>	<u>1 283</u>	<u>4 096</u>	<u>1 283</u>
	<u>1 462 490</u>	<u>1 120 138</u>	<u>1 462 490</u>	<u>1 120 138</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	CONSOLIDATED		COMPANY	
	2017 K'000	2016 K'000	2017 K'000	2016 K'000
<b>9 TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	317 097	620 568	317 097	620 568
Prepayments	139 850	86 348	139 850	86 348
Value Added Tax ("VAT") recoverable	74 121	192 020	74 121	192 020
Other receivables	10 939	11 859	10 939	11 859
	<u>542 007</u>	<u>910 795</u>	<u>542 007</u>	<u>910 795</u>
At 31 December, the ageing analysis of these trade receivables is as follows:				
Up to 1 month	317 097	287 916	317 097	287 916
1 month to 3 months	-	-	-	-
3 months to 12 months	-	332 132	-	332 132
	<u>317 097</u>	<u>620 048</u>	<u>317 097</u>	<u>620 048</u>
As of 31 December 2017, trade receivables of K317 097 000 (2016: K 287 916 000.) were fully performing.				
As at 31 December 2017, Group and Company trade receivables of K Nil (2016: K332 132 000) were past due and not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:				
3 months to 12 months	-	332 132	-	332 132
It was assessed that all receivables are expected to be recovered.				
The carrying amounts of the Group's trade receivables are denominated in the following currency:				
United States Dollars	<u>317 097</u>	<u>620 048</u>	<u>317 097</u>	<u>620 048</u>
The Group does not hold any collateral as security and the maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.				
The fair value of Group's trade and other receivables are as stated above, because of their short tenor. There are no impaired trade and other receivables.				
<b>10 RELATED PARTY BALANCES AND TRANSACTIONS</b>				
The relationships between the group and company and respective related parties is as detailed below:				
Limited.				
<b>Name</b>	<b>Relationship</b>			
Dhunseri Petrochem & Tea (Pte) Ltd	Holding Company			
Kawalazi Estate Company Ltd	fellow group subsidiary			
A.M. Henderson & Sons Limited	Subsidiary			
The following transactions were carried out with related parties:				
<b>10.1 Sales to fellow group subsidiary</b>				
Kawalazi Estate Company Limited	<u>500 250</u>	<u>586 088</u>	<u>500 250</u>	<u>586 088</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
<b>10.2 Fees charged</b>				
Land rent - A.M. Henderson & Sons Limited	-	-	1 500	1 500
Accountancy fees - A.M. Henderson & Sons Limited	-	-	400	-
Group recharges – Dhunseri Petrochem & Tea Pte Limited (note 20)	148 169	145 162	148 169	145 162
Management fees – Dhunseri Petrochem & Tea Pte Limited (note 20)	104 513	122 969	104 513	122 969
Technical fees – Dhunseri Petrochem & Tea Pte Limited (note 20)	93 404	117 018	93 404	117 018
	<u>346 086</u>	<u>385 149</u>	<u>347 986</u>	<u>386 649</u>
<b>10.3 The following year end balances arose from transactions with related parties</b>				
(i) <b>Amounts due from related parties:</b>				
Kawalazi Estate Company Limited	<u>161 879</u>	<u>13 162</u>	<u>161 879</u>	<u>13 162</u>
(ii) <b>Amounts due to related parties</b>				
A.M. Henderson & Sons Ltd	-	-	12 017	1 500
Dhunseri Petrochem & Tea Pte Limited	<u>31 714</u>	<u>90 077</u>	<u>31 714</u>	<u>90 077</u>
	<u>31 714</u>	<u>90 077</u>	<u>43 731</u>	<u>91 577</u>
Balances are interest free and unsecured with no agreed or formalised terms. The amounts due bear no interest. Amounts due from related parties are considered not impaired				
<b>10.4 Key management 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 benefits: Salaries and bonuses	<u>143 860</u>	<u>122 094</u>	<u>143 860</u>	<u>122 094</u>
<b>11 CASH AND CASH EQUIVALENTS</b>				
Current accounts	84 858	9 084	84 320	9 084
Cash on hand	<u>5 784</u>	<u>2 979</u>	<u>5 784</u>	<u>2 979</u>
Cash and cash equivalents (excluding bank overdrafts)	<u>90 642</u>	<u>12 063</u>	<u>90 104</u>	<u>12 063</u>
Cash and cash equivalents include the following for purposes of the statement of cash flows:				
Cash and cash equivalents	90 642	12 063	90 104	12 063
Bank overdraft (note 16)	<u>( 1 105 522)</u>	<u>( 1 668 596)</u>	<u>( 1 105 522)</u>	<u>( 1 668 596)</u>
Cash and cash equivalents	<u>( 1 014 880)</u>	<u>( 1 656 533)</u>	<u>( 1 015 418)</u>	<u>( 1 656 533)</u>
Bank overdraft is denominated in US Dollars and attract interest at 8% per annum				
<b>12 SHARE CAPITAL</b>				
<b>COMPANY</b>				
Authorised, issued and fully paid				
6 931 127 ordinary shares of K2 each	<u>13 862</u>	<u>13 862</u>	<u>13 862</u>	<u>13 862</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 13 DEFERRED INCOME TAXES

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

CONSOLIDATED		COMPANY	
2017	2016	2017	2016
K'000	K'000	K'000	K'000

	-	-	-	-
	30 182	46 830	30 182	46 830
	30 182	46 830	30 182	46 830

**Deferred income tax liabilities:**

- Deferred income tax liabilities to be recovered after more than 12 months
- Deferred income tax liabilities to be recovered within 12 months

	( 6 875 298)	( 4 912 524)	( 6 875 298)	( 4 868 653)
	-	-	-	-
	( 6 875 298)	( 4 912 524)	( 6 875 298)	( 4 868 653)

**Deferred income tax liabilities, (net)**

	( 6 845 116)	( 4 865 694)	( 6 845 116)	( 4 821 823)
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The gross movement in the deferred income tax account is as follows:

At 1 January	( 4 177 388)	( 3 747 098)	( 4 133 517)	( 3 747 098)
Charged/(credited) to the income statement	( 129 792)	61 417	( 129 792)	61 417
Deferred tax on acquisition		( 43 871)	-	-
Credited/(credited) to other comprehensive income		( 447 836)	( 1 893 501)	( 447 836)
At 31 December	( 4 307 180)	( 4 177 388)	( 6 156 810)	( 4 133 517)

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

**Deferred income tax liabilities**

CONSOLIDATED	Accelerated tax depreciation	Fair value gains	Total
	K'000	K'000	K'000
At 1 January 2016	( 1 283 238)	( 3 257 617)	( 4 540 855)
Charged to the income statement	64 005	56 033	120 038
Credited/(credited) to other comprehensive income	-	( 447 836)	( 447 836)
Deferred tax on acquisition	-	( 43 871)	( 43 871)
At 31 December 2016	( 1 219 233)	( 3 693 291)	( 4 912 524)
Charged to the income statement	( 59 311)	( 53 833)	( 113 144)
Credited/(credited) to other comprehensive income	-	( 1 893 501)	( 1 893 501)
Deferred tax on acquisition		43 871	43 871
At 31 December 2017	( 1 278 544)	( 5 596 754)	( 6 875 298)

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	Accelerated tax depreciation K'000	Fair value gains K'000	Total K'000
<b>13 DEFERRED INCOME TAXES (CONTINUED)</b>			
<b>COMPANY</b>			
At 1 January 2016	( 1 283 238)	( 3 257 617)	( 4 540 855)
Charged to the income statement	64 005	56 033	120 038
Credited/(credited) to other comprehensive income	-	( 447 836)	( 447 836)
At 31 December 2016	( 1 219 233)	( 3 649 420)	( 4 868 653)
Charged to the income statement	( 59 311)	( 53 833)	( 113 144)
Credited/(credited) to other comprehensive income	-	( 1 893 501)	( 1 893 501)
At 31 December 2017	( 1 278 544)	( 5 596 754)	( 6 875 298)
<b>CONSOLIDATED</b>			
<b>Deferred income tax assets</b>			
	Tax losses K'000	Other K'000	Total K'000
At 1 January 2016	29 521	75 930	105 451
Charged to the income statement	( 29 521)	( 29 100)	( 58 621)
At 31 December 2016	-	46 830	46 830
Charged to income statement	-	( 16 648)	( 16 648)
At 31 December 2017	-	30 182	30 182
<b>COMPANY</b>			
<b>Deferred income tax assets</b>			
	Tax losses K'000	Other K'000	Total K'000
At 1 January 2016	29 521	75 930	105 451
Charged to the income statement	( 29 521)	( 29 100)	( 58 621)
At 31 December 2016	-	46 830	46 830
Charged to income statement	-	( 16 648)	( 16 648)
At 31 December 2017	-	30 182	30 182
<b>14 EMPLOYEE BENEFIT OBLIGATION</b>	<b>CONSOLIDATED</b>	<b>COMPANY</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Pension and gratuity payable	12 367	217 349	12 367
			<b>2016</b>
			<b>K'000</b>
			217 349

Amounts further analysed as follows;



## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

## 14 EMPLOYEE BENEFIT OBLIGATION

## CONSOLIDATED AND COMPANY

	Pension K000	Gratuity K000	Total K000
<b>Year ended 31 December 2016</b>			
At the beginning of the year	2 339	160 151	162 490
Charged to the income statement	40 599	115 320	155 919
Payments during the year	( 40 725)	( 60 335)	( 101 060)
At the end of the year	2 213	215 136	217 349

**Year ended 31 December 2017**

At the beginning of the year	2 213	215 136	217 349
Charged to the income statement	34 270	217 840	252 110
Payments during the year	( 35 974)	( 421 118)	( 457 092)
At the end of the year	509	11 858	12 367

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

Non-current liabilities	-	-
Current liabilities	12 367	217 349
	12 367	217 349

CONSOLIDATED	2017	2016	COMPANY	2017	2016
	K'000	K'000		K'000	K'000

## 15 TRADE AND OTHER PAYABLES

Trade payables	163 911	147 142	163 911	147 142
Unpaid wages	74 246	79 770	74 246	79 770
TEVET levy payable	5 516	24 306	5 516	24 306
Value added tax payable	-	453	-	453
Pay as you earn payable	13 223	23 853	13 223	23 853
Fringe benefit tax payable	11 301	13 720	11 301	13 720
Withholding tax payable	1 612	4 929	1 612	4 929
Accruals	160 309	236 634	158 709	235 134
Accrued goods received notes	303 609	-	303 609	-
Bonus provision (note 15.1)	-	-	-	-
	733 727	530 807	732 127	529 307

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

## 15.1 The movement in the provision for bonus is as follows:

At 1 January	-	4 941	-	4 941
Bonuses paid in the year	-	( 3 684)	-	( 3 684)
Unused amounts reversed	-	( 1 257)	-	( 1 257)
At 31 December	-	-	-	-

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

16	BORROWINGS	CONSOLIDATED		COMPANY	
		2017 K'000	2016 K'000	2017 K'000	2016 K'000
	At 1 January 2017	-	-	-	-
	Additions in the year	725 650	-	725 650	-
	At 31 December 2017	725 650	-	725 650	-
	Bank overdraft	1 105 522	1 668 596	1 105 522	1 668 596
	Total borrowings	1 831 172	1 668 596	1 831 172	1 668 596
	The amounts are disclosed on the statement of financial position as follows;				
	Long term loan	544 238	-	544 238	-
	Current portion of long term loan	181 412	-	181 412	-
	Bank overdraft	1 105 522	1 668 596	1 105 522	1 668 596
		1 286 934	1 668 596	1 286 934	1 668 596
	Total borrowings	1 831 172	1 668 596	1 831 172	1 668 596
	The Group has overdraft facilities with National Bank of Malawi amounting to US\$ 2.5 million at an interest rate of 7.5 %, an inner facility amounting to MK25.0 million at an interest rate of 25%, a loan facility of US\$ 1 Million at 7% interest rate.				
	The facilities are secured over the Group's movable and immovable assets. The facilities will be due for review on 31 December 2017				
	The fair value of borrowings approximates their carrying amount as the impact of discounting is not significant.				
17	REVENUE				
	Tea	6 436 686	6 270 616	6 436 686	6 270 616
	Macadamia	500 250	586 089	500 250	586 089
		6 936 936	6 856 705	6 936 936	6 856 705
18	COST OF SALES AND DISTRIBUTION COSTS				
	Field maintenance costs	791 002	930 012	791 002	930 012
	Harvesting costs	699 374	643 817	699 374	643 817
	Processing costs	1 271 375	1 005 761	1 271 375	1 005 761
	Estate overheads	612 077	477 200	612 077	477 200
	Outgrower purchases	176 103	155 823	176 103	155 823
	Depreciation of plant and equipment (note 20.1)	788 980	748 533	788 980	748 533
		4 338 911	3 961 146	4 338 911	3 961 146
19	DISTRIBUTION COSTS				
	Brokerage commission costs	13 529	11 431	13 529	11 431
	Courier and transport costs	106 988	61 340	106 988	61 340
	Tea Cess	53 153	56 273	53 153	56 273
	Warehouse costs	22 698	12 972	22 698	12 972
		196 368	142 016	196 368	142 016
20	OTHER INCOME				
	Insurance claims	12 256	16 407	12 256	16 407
	Profit on disposal of fixed assets	-	1 421	-	1 421
	Rent	1 597	1 812	1 597	1 812
	Other sales	794	648	650	648
		14 647	20 288	14 503	20 288

## MAKANDI TEA AND COFFEE ESTATES LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2017 K'000	2016 K'000	2017 K'000	2016 K'000
<b>21 ADMINISTRATIVE EXPENSES</b>				
Audit fees - current	17 762	15 720	16 262	14 520
- Prior year	5 000	-	5 000	-
- expenses	3 238	792	3 238	492
Bank charges	62 602	32 885	62 496	32 885
Clinic expenses	66 315	52 842	66 315	52 842
Communication expenses	15 350	18 308	15 350	18 308
Depreciation (note 20.1)	113 578	104 679	98 058	104 370
Directors expenses	10 315	5 849	10 315	5 849
Entertainment costs	7 893	4 766	7 893	4 766
Group recharges (note 10.2)	148 169	145 162	148 169	145 162
Insurance	53 529	69 499	53 529	69 499
Legal and professional fees	185 839	22 711	185 839	22 711
Management fees (note 10.2)	104 513	122 969	104 513	122 969
Office and stores costs	28 013	27 669	28 013	27 669
Personnel expenses	5 012	4 928	5 012	4 928
Staff costs (note 20.2)	318 720	242 756	318 720	242 756
Security costs	205 212	165 078	205 212	165 078
Stock write offs	798	3 024	798	3 024
Subscriptions and donations	23 582	31 722	23 582	31 722
Other expenses	14 886	4 657	16 386	6 157
Loss on disposal of fixed assets	65 714	-	65 714	-
Asset write off (note 20.3)	-	246 406	-	246 406
Technical fees (note 10.2)	93 404	117 018	93 404	117 018
Travel and transport	57 241	62 406	57 241	62 406
	<u>1 606 685</u>	<u>1 501 846</u>	<u>1 591 059</u>	<u>1 501 537</u>
<b>21.1 Depreciation</b>				
Charged to administrative expenses	114 349	104 679	98 058	104 370
Charged to cost of goods sold	788 980	748 533	788 980	748 533
Total depreciation charged (note 5)	<u>903 329</u>	<u>853 212</u>	<u>887 038</u>	<u>852 903</u>
<b>21.2 Staff costs</b>				
Salaries and wages	149 926	123 616	149 926	123 616
Leave pay and severance expenses	103 704	67 197	103 704	67 197
Power and water costs	16 048	12 942	16 048	12 942
Overtime and allowances	7 329	5 475	7 329	5 475
Staff housing and other costs	38 649	30 590	38 649	30 590
Tevet levy	816	925	816	925
Other costs	2 248	2 011	2 248	2 011
	<u>318 720</u>	<u>242 756</u>	<u>318 720</u>	<u>242 756</u>
<b>21.3 Asset write off</b>				
In 2016 the Company wrote off K246 406 000 which arose from erroneous errors in processing transactions during the year.				
<b>22 FINANCE INCOME AND COSTS</b>				
<b>Finance income</b>				
- Realised exchange gains	37 023	113 093	37 023	113 093
- Unrealised exchange gains	3 805	30 469	3 805	30 469
	<u>40 828</u>	<u>143 562</u>	<u>40 828</u>	<u>143 562</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

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## 22 FINANCE INCOME AND COSTS

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
<b>Finance costs</b>				
- Interest paid	107 696	100 483	107 696	100 483
- Realised exchange losses	231	122 839	231	122 839
- Unrealised exchange losses	5 014	14 393	5 014	14 393
	<u>112 941</u>	<u>237 715</u>	<u>112 941</u>	<u>237 715</u>

## 23 TAXATION

## 23.1 Income tax expense

Current income tax	238 785	455 166	235 498	455 166
Prior year current income tax under provision	-	-	-	-
Deferred income tax	<u>45 960</u>	<u>( 61 417)</u>	<u>89 831</u>	<u>( 61 417)</u>
	<u>284 745</u>	<u>393 749</u>	<u>325 329</u>	<u>393 749</u>

## 23.2 Reconciliation of tax charge

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the legislated tax rate as follows:

Profit before income tax	1 011 239	1 607 892	1 011 239	1 609 701
Tax calculated at a tax rate of 30%	303 372	482 368	303 372	482 910
Tax effects of:				
Expenses not deductible for tax purposes	<u>22 896</u>	<u>( 88 619)</u>	<u>63 480</u>	<u>( 89 161)</u>
	<u>326 268</u>	<u>393 749</u>	<u>366 852</u>	<u>393 749</u>

## 23.3 Income tax paid

Current income tax liabilities (recoverable) at 1 January	452 750	11 976	466 925	11 976
Acquired tax assets	-	( 14 175)	-	-
Current year charge (note 22.1)	238 785	455 166	235 498	455 166
Paid during the year	<u>( 452 170)</u>	<u>( 217)</u>	<u>( 452 170)</u>	<u>( 217)</u>

Current income tax liabilities at 31 December	<u>239 365</u>	<u>452 750</u>	<u>250 253</u>	<u>466 925</u>
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**Disclosed on the balance sheet as follows:**

Tax recoverable	( 10 888)	( 14 175)	-	-
Current income tax liabilities	<u>250 253</u>	<u>466 925</u>	<u>250 253</u>	<u>466 925</u>
	<u>239 365</u>	<u>452 750</u>	<u>250 253</u>	<u>466 925</u>

## 24 DEFERRED ACQUISITION COSTS

On 31 August 2016 the Makandi Tea and Coffee Estates Limited (the parent entity) acquired 100% of the issued share capital of AM Henderson and Sons Limited, a company which primary owned land and was in tobacco farming and floriculture. The land owned by the acquired entity will be developed for Macadamia farming.

A contingent consideration of up to K 424 377 000 was agreed to be payable within 9 years. The fair value of the contingent consideration of K 246 538 000 was estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 12.5%.

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Balance at 1 January	246 538	-	246 538	-
Deferred acquisition costs during the year	-	246 538	-	246 538
Paid during the year	<u>( 41 883)</u>	<u>-</u>	<u>( 41 883)</u>	<u>-</u>
Balance at 31 December	<u>204 655</u>	<u>246 538</u>	<u>204 655</u>	<u>246 538</u>
<b>Disclosed as:</b>				
Non current liabilities	167 419	219 145	167 419	219 145
Current liabilities	<u>37 236</u>	<u>27 393</u>	<u>37 236</u>	<u>27 393</u>
	<u>204 655</u>	<u>246 538</u>	<u>204 655</u>	<u>246 538</u>

## MAKANDI TEA AND COFFEE ESTATES LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2017

## CONSOLIDATED AND COMPANY

25	CAPITAL COMMITMENTS	2017	2016
	There were no capital commitments at 31 December 2017 (2016: none)	K'000	K'000
26	CONTINGENT LIABILITIES		
(i)	Guarantees	23 672	29 281
(ii)	Legal	80 462	65 487
		<u>104 134</u>	<u>94 768</u>

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

(ii) The Group is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Group would pay K80 500 000 (2016: K65 500 000) including legal costs. Based on legal advice, the directors are of the opinion that the outcome of the action may not have material effect on the Group's financial position.

The Company is a defendant to several cases which are outstanding in the courts of Malawi. While liability is not admitted, if the defence against the actions is unsuccessful, then the Group would pay K80 500 000 (2016: K65 500 000) including legal costs. Based on legal advice, the directors are of the opinion that the outcome of the action may not have material effect on the Group's financial position.

## 27 EVENTS AFTER REPORTING DATE

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