

NAMING'OMBA TEA ESTATES LIMITED

FINANCIAL STATEMENTS

For the year ended

31 March 2017

NAMING'OMBA TEA ESTATES LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 2017

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NAMING'OMBA TEA ESTATES LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2017

The Directors have pleasure in presenting their report together with the audited financial statements of the company for the year ended on 31 March 2017.

1. NATURE OF BUSINESS

Naming'omba Tea Estates Limited is involved in growing, processing and selling tea, macadamia nuts, forestry products and tobacco.

2. INCORPORATION AND REGISTERED OFFICE

The Company is a limited liability company incorporated under the Companies Act, 2013 of Malawi and its registered office is at Naming'omba Tea Estate, P.O. Box 2, Thyolo, Malawi.

3. FINANCIAL PERFORMANCE

The results and state of affairs of the Company are set out in the statements of financial position, profit or loss and other comprehensive income, changes in equity, cash flows and the notes to the financial statements.

The directors have made an assessment and have formed an opinion that the company will remain a going concern at least for the next twelve months from the date of approval of the financial statements.

4. BOARD OF DIRECTORS AND SECRETARY OF THE COMPANY

The Directors and secretary of Naming'omba Tea Estates Limited who served during the year:

Mr. Vijay Kumar	- Managing Director	- Whole year
Mr. Bithal Kumar Kothari	- Director	- Whole year
Mr. Arthur AlickMsowoya	- Director	- Whole year
Mr. E. Phakamea	- Secretary	- Up to 31 December 2016
Mr. William Chibwe	- Director	- Whole year
Mr. Rennie Ng'omba	- Director	- Whole year

5. LEGAL ADVISORS

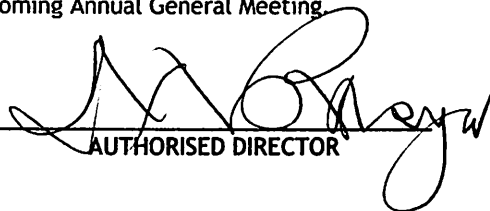
Wilson and Morgan
P O Box 527
Blantyre

6. AUDITORS

Messrs KPMG, Chartered Accountants and Business Advisors (Malawi) have expressed their willingness to continue in office as auditors in respect of the Company's 31 March 2018 financial statements and a resolution proposing their appointment will be tabled at the forthcoming Annual General Meeting.



AUTHORISED DIRECTOR



AUTHORISED DIRECTOR

25th M May 2017

NAMING'OMBA TEA ESTATES LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT
For the year ended 31 March 2017

The directors are responsible for the preparation and fair presentation of the annual financial statements of Naming'omba Tea Estates Limited, comprising the statement of financial position at 31 March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi.

The Act also requires directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the annual financial statements comply with the Companies Act, 2013 of Malawi.

In preparing the annual 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 annual financial statements, subject to any material departures being disclosed and explained in the annual financial statements; and
- preparation of annual financial statements on a going concern bases unless it is inappropriate to presume that the Company will continue in business.

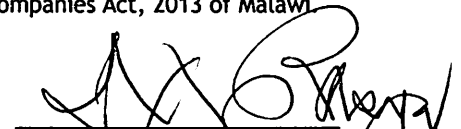
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system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

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

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.



AUTHORISED DIRECTOR



AUTHORISED DIRECTOR

25th May 2017



2017010059

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

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Website: www.kpmg.com/mw

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NAMING'OMBA TEA ESTATES LIMITED

Opinion

We have audited the financial statements of Naming'omba Tea Estates Limited (the Company) set out on pages 5 to 30, which comprise the statement of financial position as at 31 March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Naming'omba Tea Estates Limited as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by Companies Act, 2013 of Malawi and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

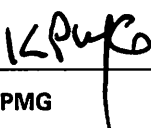
NAMING'OMBA TEA ESTATES LIMITED

**INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2016**

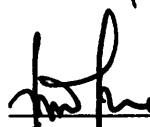
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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



KPMG



Lamion M. Gama
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi

25 May 2017

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

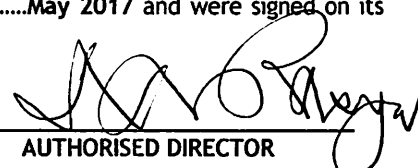
In thousands of Malawi Kwacha

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Non-current assets			
Property, plant and equipment	7	4,046,953	3,901,355
Biological assets	8	<u>10,874,220</u>	<u>9,677,489</u>
		<u>14,921,173</u>	<u>13,578,844</u>
Current assets			
Future crop expenditure	9	69,384	139,897
Inventories	10	596,821	366,355
Trade and other receivables	11	590,186	452,960
Amounts due from related parties	12(a)	997,280	449,045
Income tax recoverable	11(a)	12,095	3,346
Cash and cash equivalents	13(a)	856	999
		<u>2,266,622</u>	<u>1,412,602</u>
Total assets		<u>17,187,795</u>	<u>14,991,446</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14(a)	7,618	7,618
Share premium	14(b)	54,876	54,876
Capital reserve	14(c)	264,412	264,412
Property revaluation reserve	14(d)	2,291,152	2,178,474
Biological asset revaluation reserve	14(e)	7,480,218	6,674,164
Retained earnings/(accumulated losses)		<u>648,143</u>	<u>(168,359)</u>
		<u>10,746,419</u>	<u>9,011,185</u>
Non-current liabilities			
Deferred tax liabilities	21	4,277,083	3,892,913
Long term borrowings	13(b)	<u>724,296</u>	<u>853,647</u>
		<u>5,001,379</u>	<u>4,746,560</u>
Current liabilities			
Bank overdraft	13(a)	534,315	636,221
Trade and other payables	15	272,760	150,358
Provisions	16	231,885	223,378
Amount due to related parties	12(b)	219,963	223,743
Short term borrowings	13(b)	<u>181,074</u>	<u>-</u>
		<u>1,439,997</u>	<u>1,233,700</u>
Total liabilities		<u>6,441,376</u>	<u>5,980,260</u>
Total equity and liabilities		<u>17,187,795</u>	<u>14,991,446</u>

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



 AUTHORISED DIRECTOR



 AUTHORISED DIRECTOR

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Revenue	17	3,302,223	2,056,968
Cost of sales		<u>(1,686,947)</u>	<u>(1,440,997)</u>
Gross profit		1,615,276	615,971
Other income	18	85,396	242,935
Fair value on revaluation of biological assets	8	1,151,505	3,970,355
Selling expenses		<u>(101,953)</u>	<u>(41,929)</u>
Administration expenses	19	<u>(588,483)</u>	<u>(485,607)</u>
Operating profit		2,161,741	4,301,725
Net finance costs	20	<u>(203,305)</u>	<u>(433,538)</u>
Profit before income tax expenses		1,958,436	3,868,187
Income tax expenses	21	<u>(335,880)</u>	<u>(1,235,536)</u>
Profit after income tax expenses		1,622,556	2,632,651
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation surplus		160,968	2,372,926
Deferred Tax thereon		<u>(48,290)</u>	<u>(711,878)</u>
Total other comprehensive income		<u>112,678</u>	<u>1,661,048</u>
Total comprehensive income for the year		<u>1,735,234</u>	<u>4,293,699</u>

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017
In thousands of Malawi Kwacha

	<u>2017</u>	Share Capital	Share Premium	Revaluation reserve	Capital reserve	Biological asset revaluation reserve	Retained earnings	Total
Balance as at 1 April 2016	7,618	54,876	2,178,473	264,412	6,674,165	(168,359)	9,011,185	
Transfer from retained earnings	-	-	-	-	1,151,505	(1,151,505)	-	
Deferred tax thereon	-	-	-	-	(345,451)	345,451	-	
<i>Total comprehensive income</i>								
Transferred from Retained Earnings	-	-	160,968	-	-	-	160,968	
Deferred Tax	-	-	(48,290)	-	-	-	(48,290)	
Profit for the year	-	-	-	-	-	1,622,556	1,622,556	
Total comprehensive income	-	-	112,678	-	806,054	816,502	1,735,234	
Balance as at 31 March 2017	<u>7,618</u>	<u>54,876</u>	<u>2,291,151</u>	<u>264,412</u>	<u>7,480,219</u>	<u>648,143</u>	<u>10,746,419</u>	
Balance as at 1 April 2015	7,618	54,876	517,425	264,412	3,894,916	(21,760)	4,717,487	
Transfer from retained earnings	-	-	-	-	3,970,355	(3,970,355)	-	
Deferred tax thereon	-	-	-	-	(1,191,106)	1,191,106	-	
<i>Total comprehensive income</i>								
Transferred from retained earnings	-	-	2,372,926	-	-	-	2,372,926	
Deferred tax	-	-	(711,878)	-	-	-	(711,878)	
Profit for the year	-	-	-	-	-	2,632,650	2,632,650	
Total comprehensive income	-	-	1,661,048	-	2,779,248	(146,599)	4,293,698	
Balance as at 31 March 2016	<u>7,618</u>	<u>54,876</u>	<u>2,178,473</u>	<u>264,412</u>	<u>6,674,165</u>	<u>(168,359)</u>	<u>9,011,185</u>	

note: Capital reserve presents liabilities settled by the former shareholder Barrow Investments Limited and NBS Bank Limited, at the time when the Company was not able to do so.

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF CASH FLOWS
For the year ended 31 March 2017
In thousands of Malawi Kwacha

	Note	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Profit before income tax expenses		1,958,436	3,868,187
<i>Adjusted for:</i>			
Depreciation	7	202,390	21,167
Fair value gain on biological assets	8	(1,151,505)	(3,970,355)
Profit on disposal of property, plant and equipment	18	-	(197,623)
Unrealised exchange loss on long term loan	13(b)	51,723	147,390
Unrealised exchange loss on bank overdraft	20	31,396	271,869
Interest expense	20	<u>129,922</u>	<u>83,632</u>
Operating profit/(loss) before working capital changes		1,222,362	224,265
Decrease/(increase) in future crop expenditure		70,513	(66,818)
(Increase)/decrease in inventories		(230,466)	161,294
Increase in trade and other receivables		(137,226)	(224,583)
Increase in amount due from related parties.		(548,235)	(440,928)
Increase in trade and other payables and provisions		130,909	97,208
(Decrease)/increase in amounts due to related parties		<u>(3,781)</u>	<u>3,576</u>
Cash generated from/(utilised in) operating activities		504,076	(245,986)
Taxation paid	11(a)	<u>(8,749)</u>	<u>(3,346)</u>
Net cash from/(used in) operating activities		495,327	(249,332)
Cash flows to investing activities			
Proceeds from sale of assets		-	344,511
Acquisition of property, plant and equipment	7	<u>(187,020)</u>	<u>(561,805)</u>
Net cash used in investing activities		(187,020)	(217,294)
Cash flows from financing activities			
Proceeds from borrowings	13(b)	-	669,300
Development Expenditure	8	(45,226)	(18,478)
Interest paid	20	<u>(129,922)</u>	<u>(83,632)</u>
Net cash (used in)/from financing activities		(175,148)	567,190
Net increase in cash and cash equivalents for the period		133,159	100,564
Cash and cash equivalents at the beginning of the period		(635,222)	(463,917)
Effect of movements in exchange rate on cash balances		<u>(31,396)</u>	<u>(271,869)</u>
Cash and cash equivalents at the end of the year	13(a)	<u>(533,459)</u>	<u>(635,222)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. General Information

Naming'omba Tea Estates Limited grows, processes and sells tea, macadamia nuts, forestry products and tobacco. The company has farm land and factories in Thyolo District and sells its products within Malawi as well as outside the country.

The company is a limited liability company incorporated in Malawi. It is a subsidiary of Group Developments Limited a company incorporated in Malawi.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in conformity with the requirements of the Companies Act, 2013 of Malawi.

2.2 Going concern

The financial statements have been prepared using the going concern basis of accounting.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost convention, except for financial instruments which are measured at fair value through profit or loss and other comprehensive income.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements can be found in the following notes:

- Note 6.2 and 21 - Recognition of deferred tax assets, availability of future taxable profit against which carry forward tax losses can be used.
- Note 6.4 and 7 - Review of useful asset lives and impairment testing.
- Note 6.3 and 8 - Key assumptions underlying in the biological asset model.
- Note 3.10 - Impairment test: assumptions underlying recoverable amounts.
- Note 3.16 and 16 - Recognition and measurement of provisions.

3. Significant accounting policies

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

3.1 Foreign currency translation

3.1.1 Functional and presentation currency

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

3.1.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are recognised in profit or loss within finance income or cost.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.2 Revenue recognition

3.2.1 Revenue

Revenue comprises the fair value of the consideration received or receivable from the sales of tea, macadamia, and tobacco. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue from sales is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of goods; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.2.2 Other income

Other income comprises net revenue on other farm produce, rental income (including due to a fellow subsidiary), management fees, and sundry revenue, and is accounted for on an accruals basis.

3.2.3 Interest income

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

3.3 Development cost

Establishment costs in respect of tea and macadamia plantations, including expenditure on the necessary infrastructure, are capitalised as biological assets as they are incurred. Establishment costs do not include the cost of clearing and stumping, terracing or irrigation work for new plantations, which are classified as land development costs within property, plant and equipment.

Replanting and in-filling costs are expensed when incurred.

3.4 Property, plant and equipment

Items of property, plant and equipment are measured at revaluation less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any gains or losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

Increase in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. The revaluation reserve is realised on disposal. All other decreases are recognised in profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the company.

Ongoing repairs and maintenance are expensed in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.5 Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Freehold buildings and construction	-	2%
Plant and machinery	-	3.5% - 5%
Water schemes	-	3.5% - 10%
Motor vehicles	-	8% - 17%
Office equipment	-	10% - 20%
Furniture and fittings	-	10%

Economic lives and residual values are reassessed annually and adjusted where appropriate.

3.6 Biological assets

Tea, timber and macadamia and plantations are measured at fair value. The fair value of plantations is determined based on the present value of expected net cash flows from the plantations determined by discounting the expected net cash flows from the plantations using a determined pre-tax rate of cost of capital.

3.7 Future crop expenditure

The company's financial year end and crop seasons are not altogether concurrent. Accordingly fertiliser application and other costs other than establishment costs of biological assets incurred prior to the reporting date in respect of crops which will be harvested in the subsequent financial year are carried forward in the statement of financial position and charged against the corresponding revenue in the following year, to comply with the matching concept.

3.8 Inventories

Inventories including stores, made tea and macadamia stocks are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost method. The cost of made tea and macadamia comprise direct labour, other direct costs and the related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.9 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Bad debts are written off during the year in which they are identified. Impairment is calculated as the difference between carrying amount and present values of expected cash flow from customers.

3.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, 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 an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.11 Financial assets

3.11.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company does not currently have any financial assets other than trade and other receivables.

3.11.2 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 12 month after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

3.11.3 Recognition and measurement

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The transaction differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities as classified available-for-sale are transferred to a fair value reserve.

3.11.4 Offsetting financial instruments

Financial assets and liabilities are off-set 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 to realise the assets and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.12 Impairment of financial assets

3.12.1 Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of one or more events that occurred after the initial recognition of the assets (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.

The criteria that the company uses to determine whether there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligant;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the debtors financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) Adverse changes in the payment of borrowers in the portfolio;
 - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is then 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 statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

3.12.2 Assets classified as available for sale

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in other comprehensive income. Impairment losses recognised in other comprehensive income on equity instruments are reversed through other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.13 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash on hand; deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are disclosed as current liabilities in the statement of financial position.

3.14 Income tax

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

The current income tax charge is calculated on the basis of tax rates and 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 tax

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. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that 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 set off current tax assets against current tax liabilities.

3.15 Pension

The Company participates in a defined contribution scheme to which both the Company and eligible employees contribute. The company has no further payment obligation once the contributions have been paid. The company's contributions are recognised as an employee benefit expense when they are due.

3.16 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligations has been reliably estimated. Where it cannot be, the obligation is disclosed as a contingent liability.

3.17 Borrowings

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

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

3.18 Trade payables

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using non-current liabilities.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. Significant accounting policies (Continued)

3.19 Equity

Ordinary shares, share premium, revaluation and indexation surpluses, non-distributable and distributable retained earnings are classified as equity.

3.20 Net finance income/cost

Finance income includes exchange gains and interest on the bank loans

Finance costs

Finance cost includes exchange losses and interest on loans and bank overdraft.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

4. **New Standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

- **IFRS 9 Financial instruments**

This replaces existing guidance in *IAS 39 Financial Instruments: Recognition and measurement*

This includes revised guidance on classification and measurements of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Company is assessing the possible impact on its financial statements resulting from the application of IFRS 9.

- **IFRS 15 Revenue from contracts with customers**

This establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *IAS 18 Revenue*, *IAS 11 Construction contracts* and *IFRIC 13 Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.

The company is assessing the possible impact on its financial statements resulting from the application of IFRS 15.

- **IFRS 16 Leases:** IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

- **Disclosure Initiative (Amendments to IAS 7):** The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities. The Company does not expect this amendment to have a significant impact on its financial statements.
- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12):** The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. Financial Risk Management

5.1 Financial risk factors

The Company's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate and cash flow interest risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Naming'omba Tea Estates Limited directors provide principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, currency exposures, interest rate risk and credited risk and investment of excess liquidity.

5.2 Financial risk management objectives

The following is the analysis of the financial instruments:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Financial assets			
Trade and other receivables	11	573,424	440,100
Due from related party	12	997,280	449,045
Cash and bank balances	13(a)	<u>856</u>	<u>999</u>
Financial liabilities			
Borrowings	13(b)	905,370	853,647
Trade and other payables	15	272,760	150,358
Bank overdraft	13(a)	534,315	636,221
Due to related party	12	<u>219,963</u>	<u>223,743</u>

5.3 Market risk management strategies

The company is exposed to financial risks arising from changes in tea and macadamia prices. The Company does not anticipate that tea and macadamia prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in produce prices. The Company reviews its outlook for produce prices regularly in considering the need for active market risk management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. Financial Risk Management (continued)

5.4 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. The trading in a strong foreign currency acts as a hedge against exchange rate fluctuations.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities are as follows:

USD denominated assets

	<u>2017</u>	<u>2016</u>
Receivables	421,999	355,400

USD denominated monetary liabilities

Bank overdraft	505,108	618,738
Long term borrowings	905,370	853,647

Foreign currency sensitivity analysis

The Company's sensitivity to a 5% increase and decrease in the Malawi Kwacha against the United States Dollar. 5% is the rate management use when doing variance analyses.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 5% change in foreign currency rate. A positive number below indicates an increase in profit where Malawi Kwacha strengthens 5% against the United States Dollar. For a 5% weakening of the Malawi Kwacha against the United States Dollar, there would be an equal and opposite impact on profit.

	<u>2017</u>	<u>2016</u>
Profit or loss	<u>(MK49.4) million</u>	<u>(MK55.8) million</u>

The above movement is mainly attributable to the exposure outstanding of the carrying of the Company's foreign currency denominated money assets and monetary assets.

The Company manages foreign currency risk by maintaining sufficient resources in its foreign currency denominated account by which it largely transacts its sales to meet foreign currency liabilities.

5.5 Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating rate. The risk is managed by the Company by maintaining an appropriate mix between fixed and semi - fixed rates borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on exposure to interest rate for non-derivative instruments at the reporting date. For the floating rate and semi-floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. The floating rate has been assumed at 30% (2016:35%).

A 5% increase or decrease in floating rate has been adopted and 0.5% increase or decrease has been adopted in semi-floating rates.

If the floating interest rates had been 5% higher/lower and all other variables were held constant, the Company's profit for the year ended 31 March 2017 would have decreased/increased by MK4 million (2016: MK0.9 million).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

5. Financial Risk Management (continued)

5.6 Credit risk management

The Company is exposed to risk of failure by customers to honour their debts. Trade receivables mainly consist of private sales and auction sales which have proved to be reliable customers in the past. The company does not have significant credit risk exposure.

	<u>2017</u>	<u>2016</u>
Maximum credit risk exposure	<u>1,587,466</u>	<u>902,005</u>

Included in the credit risk exposure above is MK997,3 million (2016: MK449 million) due from group companies with almost no credit risk.

5.7 Liquidity risk management

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

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

31 March 2017

	<u>Note</u>	<u>Up to 1 Month</u>	<u>1 to 3 Month</u>	<u>3 to 12 Month</u>	<u>Total</u>	<u>Fair value</u>
Financial assets						
Trade and other receivables	11	421,277	147	152,000	573,424	573,424
Due from related parties	12	-	-	997,280	997,280	997,280
Cash and cash equivalents	13(a)	<u>856</u>	-	-	<u>856</u>	<u>856</u>
		<u>422,133</u>	<u>147</u>	<u>1,149,280</u>	<u>1,571,560</u>	<u>1,571,560</u>
Financial liabilities						
Trade and other payables	15,16	198,842	173,918	131,885	504,645	504,645
Bank overdraft	13(a)	-	-	534,315	534,315	534,315
Due to related parties	12	-	-	<u>219,963</u>	<u>219,963</u>	<u>219,963</u>
Total financial liabilities		<u>198,842</u>	<u>173,918</u>	<u>886,163</u>	<u>1,258,923</u>	<u>1,258,923</u>
Periodic gap		<u>223,291</u>	<u>(173,771)</u>	<u>263,117</u>	<u>312,637</u>	<u>312,637</u>
Cumulative gap		<u>223,291</u>	<u>49,520</u>	<u>312,637</u>	<u>312,637</u>	<u>312,637</u>

31 March 2016

	<u>Note</u>	<u>Up to 1 Month</u>	<u>1 to 3 Month</u>	<u>3 to 12 Month</u>	<u>Total</u>	<u>Fair value</u>
Financial assets						
Trade and other receivables	11	255,300	462	184,338	440,100	440,100
Due from related parties	12	-	-	449,045	449,045	449,045
Cash and cash equivalents	13(a)	<u>999</u>	-	-	<u>999</u>	<u>999</u>
		<u>256,299</u>	<u>462</u>	<u>633,383</u>	<u>890,144</u>	<u>890,144</u>
Financial liabilities						
Trade and other payables	15,16	42,349	48,444	282,943	373,736	373,736
Bank overdraft	13(a)	636,221	-	-	636,221	636,221
Due to related parties	12	-	-	<u>223,743</u>	<u>223,743</u>	<u>223,743</u>
Total financial liabilities		<u>678,570</u>	<u>48,444</u>	<u>506,686</u>	<u>1,233,700</u>	<u>1,233,700</u>
Periodic gap		<u>(422,271)</u>	<u>(47,982)</u>	<u>126,697</u>	<u>(343,556)</u>	<u>(343,556)</u>
Cumulative gap		<u>(422,271)</u>	<u>(470,253)</u>	<u>(343,556)</u>	<u>(343,556)</u>	<u>(343,556)</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

5. Financial Risk Management (continued)

5.8 Financial instruments - Fair values and risk management

Accounting classifications and fair values

The following information table shows the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value

31 March 2017

Carrying amount

	<u>Note</u>	<u>Loans And Receivables</u>	<u>Other financial liabilities</u>	<u>Total</u>
Financial assets not measured at fair value				
Trade and other receivables	11	573,424	-	573,424
Amount due from group companies	12	997,280	-	997,280
Cash and cash equivalents	13(a)	856	-	856
Financial liabilities not measured at fair value				
Amount due to group companies	12	219,963	-	219,963
Trade and other payables	15	504,645	-	504,645
Bank overdrafts	13(a)	534,315	-	534,315

31 March 2016

Carrying amount

	<u>Note</u>	<u>Loans And Receivables</u>	<u>Other financial liabilities</u>	<u>Total</u>
Financial assets not measured at fair value				
Trade and other receivables	11	440,100	-	440,100
Amount due from group companies	12	449,045	-	449,045
Cash and cash equivalents	13(a)	999	-	999
Financial liabilities not measured at fair value				
Amount due to group companies	11	-	223,743	223,743
Trade and other payables	15	-	373,736	373,736
Bank overdrafts	13(a)	-	636,221	636,221

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting estimates will by definition rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

6.1 Estimated impairment of trade receivable

The Company tests annually whether receivables have suffered any impairment and makes a provision for bad debts in accordance with the accounting policy stated in note 2.10. This assessment requires judgement.

6.2 Income taxes

The Company is subject to income tax in Malawi and provision for income tax payable is made in the financial statements as at each financial year end. Subsequent to the year end a tax return is filed with the revenue authorities. Where the final tax assessed is different from the amounts that were initially provided, such differences will be accounted for as an income tax under/over provision in the statement of comprehensive income for the period when such determination is made.

Deferred tax asset is only recognised to the extent that there will be future taxable profits to offset the tax losses within the allowable period for carrying forward tax losses.

6.3 Biological assets valuation

Included in the rate used to discount the yields for macadamia and tea is a time value for money risk factor representing risks associated with the loss of value of money as a consequence of the passage of time.

In accordance with the Company's strategic plans, tea, macadamia and timber plantations are assumed to have productive life of 40 years, 25 years and 7 years respectively.

The models assume no capacity constraints, sustained global market demand and continued positive market conditions.

Standard ratios for conversion of green leaf to made tea and shelling of macadamia to kernels are applied.

These models contain estimates of yields and future proceeds and these assumptions are reconsidered annually.

6.4 Assets' economic lives and residual values

Management uses its judgement, based on its understanding of the business, capital policy and the economic environment in which it operates, to assess the residual value, and the estimated useful life of assets. Changes in residual values, indexation and estimated useful lives result in changes in depreciable and annual depreciation charges for individual assets.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017
In thousands of Malawi Kwacha

7. Property plant and equipment See accounting policy note 3.4	Freehold land and development	Freehold buildings and constructions	Plant and machinery	Motor vehicles	Water schemes	Furniture, fittings and equipment	Capital work in progress	Total
<u>Cost</u>								
2017								
As at 1 April 2016	1,261,622	1,177,307	1,019,345	174,965	24,035	30,551	330,255	4,018,080
Additions during the year	-	59,296	86,927	26,636	1,405	12,756	-	187,020
Revaluation surplus	160,968	-	-	-	-	-	-	160,968
Transfer from WIP	-	36,452	293,803	-	-	-	(330,255)	-
As at 31 March 2017	1,422,590	1,273,055	1,400,075	201,601	25,440	43,307	-	4,366,068
<u>2016</u>								
As at 1 April 2015	79,799	1,016,883	200,667	142,437	12,722	20,132	56,777	1,529,417
Depreciation reversed	-	(158,818)	(104,002)	-	(7,070)	-	-	(269,890)
Additions during the year	-	22,113	61,306	32,528	5,273	10,419	430,166	561,805
Disposal during the year	-	(175,200)	(978)	-	-	-	-	(176,178)
Revaluation surplus	1,181,823	372,418	805,575	-	13,110	-	-	2,372,926
Transfer from WIP	-	99,911	56,777	-	-	-	(156,688)	-
As at 31 March 2016	1,261,622	1,177,307	1,019,345	174,965	24,035	30,551	330,255	4,018,080
<u>Depreciation</u>								
2017								
As at 1 April 2015	-	-	-	105,056	-	11,669	-	116,725
Charge for the year	-	63,829	113,562	17,976	3,410	3,613	-	202,390
As at 31 March 2017	-	63,829	113,562	123,032	3,410	15,282	-	319,115
<u>2016</u>								
As at 1 April 2015	-	187,130	104,980	86,347	7,070	9,211	-	394,738
Charge for the year	-	-	-	18,709	-	2,458	-	21,167
Depreciation released on revaluation	-	(158,818)	(104,002)	-	(7,070)	-	-	(269,890)
Eliminated on disposals	-	(28,312)	(978)	-	-	-	-	(29,290)
As at 31 March 2016	-	-	-	105,056	-	11,669	-	116,725
Carrying amount								
As at 31 March 2017	1,422,590	1,209,226	1,286,513	78,569	22,030	28,025	-	4,046,953
As at 31 March 2016	1,261,622	1,177,307	1,019,345	69,909	24,035	18,882	330,255	3,901,355

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

7. Property plant and equipment (continued)

Land and development, water schemes and plant and machinery are stated at revalued amounts as at 31 March 2017.

Measurement of fair values

Freehold Land and developments were valued as at 31 March 2017 by independent valuers, Dick Mupambireyi, an Asset Valuation Surveyor of PRO-VAL (Pvt) Limited of Zimbabwe, who have experience in the location and category of Biological Assets and Land and are being used by a number of companies within the tea industry in Malawi. The independent valuers provide the fair values of the Company's Biological Assets and Land with sufficient regularity.

The Depreciated replacement cost which is used for all properties which do not have a ready and active market such as remote and purpose built properties was adopted by the valuers.

The fair value measurement for all of the Land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as significant unobservable inputs used

Valuation method adopted	Observable inputs	Unobservable input
Depreciated replacement cost	Building cost information sourced from quantity surveyors	Estimated depreciation rates based on location and obsolescence

Derecognitions and verification of assets

The Company carried out a physical verification of assets as at 31 March 2017. The exercise revealed that there were assets which were not being used due to the fact that they were in a state of disrepair or that they are damaged beyond repair were immaterial. These were mainly other plant and machinery.

After a fixed asset bar coding exercise that the Company embarked upon, it was discovered that there are assets that were in Fixed Asset Register but not on the ground and others were on ground but not in the register. The reconciliation of the two positions had not yet been done as at the year-end but the directors are of the opinion that the net position is not material as far as the financial statements are concerned.

Encumbrance

As at year end 31 March 2017, Land was encumbered asset for the FMB Long term Loan (US\$1,250,000).

Title deeds for properties

The Company has title deeds to its properties.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

8.	Biological assets			
	<i>See accounting policy note 3.6</i>		<u>2017</u>	<u>2016</u>
	Opening balance		9,677,489	5,688,656
	Additions during the year		45,226	18,478
	Fair value gains		<u>1,151,505</u>	<u>3,970,355</u>
	Closing balance		<u>10,874,220</u>	<u>9,677,489</u>
	Fair value movement during the year			
	Fair value gain for the year			
	Analysed by:			
	Tea		558,069	2,153,425
	Macadamia		558,125	1,738,648
	Timber plantation		<u>35,311</u>	<u>78,282</u>
			<u>1,151,505</u>	<u>3,970,355</u>
	<u>2017</u>			
	Other information	<u>Tea</u>	<u>Macadamia</u>	<u>Total</u>
	Hectarage covered at year end	1,281	404	1,685
	Total tonnage harvested during the year	8,124	1,305	9,429
	The proceeds net of point of sales costs	1,877,897	1,212,320	3,090,217
	<u>2016</u>			
	Other information	<u>Tea</u>	<u>Macadamia</u>	<u>Total</u>
	Hectarage covered at period end	1,281	404	1,685
	Total tonnage harvested during the period	8,522	1,347	9,869
	The proceeds net of point of sales costs	1,283,074	672,281	1,955,355

NB: The production and proceeds is the combination of Mafisi, Group Holdings Limited and Naming'omba Tea Estates Limited.

Biological assets and Land were valued as at 31 March 2017 by independent valuer, Dick Mupambireyi, a Biological Asset Surveyor of PRO-VAL (Pvt) Limited of Zimbabwe, who have experience in the location and category of Biological Assets and Land and are being used by a number of companies within the tea industry in Malawi. The independent valuers provide the fair values of the Company's Biological Assets and Land with sufficient regularity.

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9.	Future crop expenditure	<u>2017</u>	<u>2016</u>
	<i>See accounting policy note 3.7</i>		
	Macadamia	69,384	53,294
	Tobacco	-	86,603
		<u>69,384</u>	<u>139,897</u>
10.	Inventories		
	<i>See accounting policy note 3.8</i>		
	Finished goods:		
	Macadamia	191,939	114,994
	Made tea	216,913	94,224
	Consumables	169,733	157,137
	Nursery plants	18,236	-
		<u>596,821</u>	<u>366,355</u>
11.	Trade and other receivables		
	<i>See accounting policy note 3.9</i>		
	Trade receivables	421,999	355,400
	Prepayments	16,762	12,860
	Other	151,425	84,700
		<u>590,186</u>	<u>452,960</u>
	The carrying amounts of trade and other receivables approximates their fair value due to their short term nature.		
	There is no impairment in the trade and other receivables Since their recoverability is very certain due to their short term nature.		
	The maximum exposure to credit risks at the reporting date is the collateral carrying value on each class of receivable mentioned above. The Company did not hold any collateral on the receivables.		
11(a)	Income tax recoverable		
	<i>See accounting policy note 3.9</i>		
	Balance at 1 January	3,346	-
	Withholding tax paid during the year	8,749	3,346
	Balance at 31 December	<u>12,095</u>	<u>3,346</u>

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12.	Related parties	<u>2017</u>	<u>2016</u>
	<i>See accounting policy note 3.9 and 3.18</i>		
12(a)	Amounts due from related parties:		
	Mafisi Tea Estates Limited	-	2,688
	Group Holdings Limited	-	2,623
	Group Development Limited		
	Interest on foreign loan	<u>997,280</u>	<u>443,734</u>
		<u>997,280</u>	<u>449,045</u>
12(b)	Amounts due to related parties:		
	Group Holding Limited	55,317	56,365
	Mafisi Tea Estate Limited	<u>164,646</u>	<u>167,379</u>
		<u>219,963</u>	<u>223,744</u>
	Related party transactions		
	During the year the following transactions were carried out with related parties		
	Group Holdings Limited		
	Rent for use of land	<u>2,772</u>	<u>2,772</u>
	Mafisi Tea Estates Limited		
	Rent for use of land	<u>1,502</u>	<u>1,502</u>
13(a)	Cash and cash equivalents		
	<i>See accounting policy note 3.13</i>		
	Cash at bank	856	999
	Bank overdraft	<u>(534,315)</u>	<u>(636,221)</u>
		<u>(533,459)</u>	<u>(635,222)</u>

The working capital facilities from FMB Bank amounting to USD 1.150 Million (one million one hundred fifty thousand) and MK50 Million (Malawi Kwacha Fifty Million) are charged interest rates of 7.75% per annum and bank's base lending rate minus 3 percentage points (currently at 28% per annum) respectively. Security charge by way of equitable mortgage over the assets of Naming'omba Tea Estates Limited to be created and presently title deed of Mafisi Tea Estates Limited is held by the Bank.

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13 (b)	Long term borrowings <i>See accounting policy note 3.1</i>	<u>2017</u>	<u>2016</u>
	FMB Limited loan		
	Opening balance	853,647	36,957
	Receipts during the year	-	669,300
	Exchange Loss	<u>51,723</u>	<u>147,390</u>
		<u>905,370</u>	<u>853,647</u>
	Short term borrowings	181,074	-
	Long term borrowings	<u>724,296</u>	<u>853,647</u>
		<u>905,370</u>	<u>853,647</u>
	<p>The foreign currency long term loan of USD1.250 million (one million two hundred fifty thousand) from FMB Bank is repayable over 7 years with 24 month moratorium on the principal amount. Interest is charged at 7.75% per annum. The loan is secured by a charge by way of equitable mortgage over the assets of Naming'omba Tea Estates Limited to be created and presently title deeds of Mafisi Tea Estates Limited are held by the Bank.</p>		
14.	Equity <i>See accounting policy note 3.19</i>		
14(a)	Share capital		
	<i>Authorised:</i>		
	8,000,000 ordinary shares of K1 each	<u>8,000</u>	<u>8,000</u>
	<i>Issued and fully paid:</i>		
	7,617,633 ordinary shares of K1 each	<u>7,618</u>	<u>7,618</u>
14(b)	Share premium	<u>54,876</u>	<u>54,876</u>
14(c)	Capital reserve Capital reserve arose following injection of additional capital by the shareholders to settle liabilities directly with creditors. It is not available for distribution.	<u>264,412</u>	<u>264,412</u>
14(d)	Property revaluation reserve Property revaluation reserve represents the increase in value of property arising from revaluation of property from time to time. It is not available for distribution to shareholders.	<u>2,291,152</u>	<u>2,178,474</u>
14(e)	Biological assets revaluation reserve Biological assets revaluation reserve represents the increase in fair value of the biological assets following revaluations of the biological assets to their fair value less deferred income tax. The revaluation reserve is not available for distribution to the shareholders.	<u>7,480,218</u>	<u>6,647,164</u>
15.	Trade and other payables <i>See accounting policy note 3.18</i>		
	Trade payables	<u>272,760</u>	<u>150,358</u>

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16. Provisions		<u>2017</u>	<u>2016</u>
	<i>See accounting policy note 3.16</i>		
	Employee accruals	138,519	151,189
	Other provision	<u>93,366</u>	<u>72,189</u>
		<u>231,885</u>	<u>223,378</u>
16.1 Employee			
	Wages provision	66,802	95,422
	Gratuity	36,722	23,176
	Leave pay	<u>34,995</u>	<u>32,591</u>
		<u>138,519</u>	<u>151,189</u>
16.2 Other provisions			
	At 1 September 2016	72,189	68,319
	Net movements during the period	<u>21,177</u>	<u>3,870</u>
	Balance at period end	<u>93,366</u>	<u>72,189</u>
17. Revenue			
	<i>See accounting policy note 3.2.1</i>		
	Tea	1,950,749	1,319,100
	Tea Sales Return	-	(4,585)
	Macadamia	1,235,589	678,269
	Tobacco	<u>115,885</u>	<u>64,184</u>
		<u>3,302,223</u>	<u>2,056,968</u>
18. Other income			
	<i>See accounting policy note 3.2.2</i>		
	Net income on other farm produce	11,607	45,313
	Profit on sale of property, plant and equipment	-	197,622
	Other income	<u>73,789</u>	<u>-</u>
		<u>85,396</u>	<u>242,935</u>
19. Administration expenses			
	Audit remuneration - Fees - Current	25,048	24,000
	Prior year under provision	1,460	8,636
	Bank charges	13,122	6,175
	Depreciation (Note 7)	202,390	21,167
	Estate rent	4,273	4,274
	Insurance expenses	15,131	15,775
	Legal fees and other professional services fees	6,320	41,016
	Other costs	83,663	71,164
	Repairs and maintenance	15,671	10,341
	Salaries and wages	203,519	265,181
	Travelling expenses	<u>17,886</u>	<u>17,878</u>
		<u>588,483</u>	<u>485,607</u>

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20.	Net finance cost	<u>2017</u>	<u>2016</u>
	<i>See accounting policy note 3.20</i>		
	Exchange loss		
	Unrealised losses on foreign loan	(51,723)	(147,390)
	Unrealised losses on foreign currency overdraft	<u>(31,396)</u>	<u>271,869</u>
	Total exchange losses	83,119	419,259
	Interest expense on bank overdraft	<u>(129,922)</u>	<u>(83,632)</u>
	Total finance cost	(213,041)	(502,891)
	Finance income		
	Realised finance exchange gains	<u>9,736</u>	<u>69,353</u>
	Total net finance cost	<u>(203,305)</u>	<u>(433,538)</u>

21.	Taxation		
	<i>See accounting policy note 3.14</i>		
	<i>Income tax expense</i>		
	<i>Current tax expense</i>		
	Current tax @ 30% (2016: 30%)	-	-
	Deferred tax credit/(expense)	9,571	(44,430)
	Deferred tax on biological assets	<u>(345,451)</u>	<u>(1,191,106)</u>
	Tax expenses	<u>(335,880)</u>	<u>(1,235,536)</u>
	<i>Tax reconciliations</i>		
	Profit before taxation	30% <u>1,958,436</u>	30% <u>3,868,186</u>
	Income tax at 30%	<u>(587,531)</u>	<u>(1,160,456)</u>
	Deferred tax credit/(expense)	9,571	(44,430)
	Non deductible expenses	<u>242,080</u>	<u>(30,650)</u>
		<u>(335,880)</u>	<u>(1,235,536)</u>

Deferred tax (assets)/liabilities

	<u>2017</u>			<u>2016</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Property, Plant and Equipment	-	2,875,874	2,875,874	-	2,827,584	2,827,584
Fair value adjustment	-	1,536,558	1,536,558	-	1,191,107	1,191,107
Provisions	<u>(135,349)</u>	-	<u>(135,349)</u>	<u>(125,778)</u>	-	<u>(125,778)</u>
	<u>(135,349)</u>	<u>4,412,432</u>	<u>4,277,083</u>	<u>(125,778)</u>	<u>4,018,691</u>	<u>3,892,913</u>

The movement in deferred tax is analysed as follows:-

<u>2017</u>	Balance at 1 April <u>2016</u>	Recognised in profit or <u>loss</u>	Recognised in comprehensive <u>income</u>	Balance at 31 March <u>2017</u>
Property, plant and equipment	2,827,584	-	48,290	2,875,874
Fair value adjustment on biological asset	1,191,107	345,451	-	1,536,558
Provisions	<u>(125,778)</u>	<u>(9,571)</u>	-	<u>(135,349)</u>
	<u>3,892,913</u>	<u>335,880</u>	<u>48,290</u>	<u>4,277,083</u>

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21. Taxation

See accounting policy note 3.14

<u>2016</u>	Balance at 1 April <u>2015</u>	Recognised in profit or <u>loss</u>	Recognised in comprehensive <u>income</u>	Balance at 31 March <u>2016</u>
Tax losses	-	-	-	-
Property, plant and equipment	1,983,446	132,260	711,878	2,827,584
Fair value adjustment on biological asset	-	1,191,107	-	1,191,107
Provisions	<u>(37,947)</u>	<u>(87,831)</u>	<u>-</u>	<u>(125,778)</u>
	<u>1,945,499</u>	<u>1,235,536</u>	<u>711,878</u>	<u>3,892,913</u>

22. Contingent liabilities

The Company has an Escrow arrangement with NBS Bank whereby any liabilities that are discovered subsequent to take over and which were not disclosed to the new shareholders would be paid from the Escrow account. At the reporting period the company had contingent liability of MK350 million which would be settled under the Escrow rearrangement.

23. Exchange rates and inflation

The average of the year end selling rates of major foreign currencies affecting the performance of the Company are stated below, together with the increase in the National Consumer Price Index, which represents an official measure of inflation.

Exchange rates	<u>2017</u>	<u>2016</u>
Kwacha/GBP	921	1,032
Kwacha/Rand	55	44
Kwacha/US Dollar	735	683
Inflation rate %	16.5%	22.1%

At the time of approval of these financial statements, the exchange rates had moved to:

Kwacha/GBP	955
Kwacha/Rand	57
Kwacha/US Dollar	734.20

24. Capital commitments

There were no capital commitments as at 31 March 2017 (31 March 2016: K23,340,782)

25. Events after the reporting date

There have not been other events which have occurred subsequent to year end necessitating adjustments or disclosures to these financial statements.