



SUNBIRD

Hotels and Resorts

Sunbird Tourism Limited

A N N U A L R E P O R T

2 0 1 4

OUR VISION

To be the preferred brand in the hospitality industry

MISSION STATEMENT

Sunbird exists to provide excellent accommodation, catering and related hospitality services with the intention of increasing shareholder value

STATEMENT OF STRATEGIC INTENT

Sunbird will grow shareholder value by providing superior and innovative customer service, modern and up-market accommodation in a sustainable and socially responsible manner

Group Profile

SUNBIRD TOURISM LIMITED [STL] is a publicly quoted enterprise, listed on the Malawi Stock Exchange in August 2002. With 71% the Government of Malawi is the largest shareholder while members of the public own 12.56 % and Mr. Noel Hayes owns 16.44%.

Having acquired shares previously owned by Air Malawi Limited, the Group now owns 100% shareholding in Catering Solutions Limited which is involved in airline and institutional catering. The Group has a total of seven hotels, all strategically located in Malawi’s key business hubs and resort locations. With this portfolio, STL is by far the largest hospitality and tourism enterprise in Malawi. STL was incorporated in 1988 as a private Group following the amalgamation and consolidation of hotels previously owned by the Government of Malawi under different investment vehicles. Previously the Company was called Tourism Development and Investment Group Limited of Malawi (TDIC) until 2000 when it changed its name to Sunbird Tourism Limited.

Listing

The ordinary shares of the Group are listed on the Malawi Stock Exchange. The Company’s share price closed the year at MK8.00 per share having opened at MK7.00 per share.

INVESTOR CORRESPONDENCE	REGISTERED OFFICE	TRANSFER SECRETARIES	AUDITORS
<i>For any queries, investors are requested to get in touch with</i>	28 Glyn Jones Road Sunbird Mount Soche Blantyre	National Bank Financial Management Services Henderson Street P.O. Box 1438, Blantyre	KPMG MASM House Lower Sclater Road Blantyre
The Company Secretary Sunbird Mount Soche 28 Glyn Jones Road BLANTYRE			

Chairman's Statement



OVERVIEW

The operating business environment for 2014 can be described as having been very challenging. Two major events had a significant impact on the performance of the Group in the year.

Firstly, as a result of the 'Cashgate Scandal', the massive looting of Government resources, donors suspended aid to Malawi in 2013 and placed conditions for its resumption. It was therefore inevitable that the Government had to introduce a zero-aid budget. The 2014/15 budget which was passed in September 2014 was therefore implemented under a very tight fiscal policy. The budget was pegged at MK737 billion with a resource envelope of MK635.6 billion. Funding to some sectors of the economy had to be held back in order to focus on priority areas and, as a consequence, hotels experienced considerable reduction, and in some cases cancellations, of Government and donor-funded business

Secondly, the country held tripartite elections on 20th May 2014. The election results were marred by irregularities which delayed the announcement of the results. The Reserve Bank of Malawi in its Financial and Economic Review had anticipated that the hospitality industry would grow by 7.0 percent in 2014 from the 4.5 percent growth registered in 2013.

The major reason for this higher growth was the anticipated increase in conference activities linked to the national tripartite elections. In addition, commencement of operations of Malawian Airlines was expected to increase the number of international guests. On the contrary, the election's impasse caused some cancellations of pre-booked business as it was feared that the political impasse could easily have degenerated into chaos. This compounded the slow business which was experienced in the month of May as most organisations withheld travel during the period preceding the elections. The Group experienced up to MK300 million in cancellations during this period and this figure does not include potential of unbooked business.

GDP for 2014 was estimated at 5.5% but ended at 5% mainly due to the impact of the Cashgate scandal. Furthermore, the Kwacha started losing ground on major currencies from around October 2014 which was the end of the tobacco growing season. This resulted in an increase in the inflation rate and commercial banks reacted by increasing their base lending rate in October from 22.5% to 25%. This led to increased costs in financing, thus eroding the savings which the Group could have otherwise realised.



In spite of the above macro-economic challenges, Sunbird has consistently shown its ability to adapt to the challenges of its environment and the Board remains confident in the ability of the Group's management team and its employees to continue to deliver positive results for the shareholders. I am also proud to say that yet again in 2014 Sunbird, through the hard work and dedication of its management and staff and the guidance and leadership of its Board, sustained itself as the leading hotel chain, continuing to hold its market share in spite of the field becoming fiercely competitive. Sunbird was guided by the philosophy that the quality of its service offering and the professionalism and warmth of its staff are what wins loyalty from our guests. Sunbird therefore resisted any temptation to succumb to the price wars that were prevalent in the market. In spite of the challenging economic environment consolidated turnover grew by 22% while profitability grew by 53%. The Group continued to shoulder high finance costs which were at MK904.199 million in 2014 (2013 MK1.025 billion). A material percentage of income was thus heavily committed to interest payments, making

it more challenging to implement any meaningful, long overdue refurbishments of the rest of the hotels as well as investment in any new initiatives. Unfortunately this is the only way through which Sunbird can secure the long-term success and viability of the Group. In order to improve liquidity in the absence of recapitalisation the Board approved the restructuring of loans by issuing bonds to Old Mutual (MK700 million) and CDH (MK690 million).

The 2014 performance further supports the Board's strong belief that the Group has the potential to substantially increase shareholder returns if only its capital structure could be more efficiently re-organised. The Board continues to engage the majority shareholder, the Malawi Government, with a view to securing the Government's final position on the recapitalisation strategy of the Company.

The Board continues to be concerned about the lack of adequate funding in tourism infrastructure e.g. telecommunications, IT, roads, airports and immigration facilities and

services. The 2014/2015 budget allocation to the Ministry of Tourism and Information was only MK4 billion, reduced from the MK9 billion that was requested. The reduced funding makes it challenging to achieve any quick gains in the tourism industry and the marketing of Malawi as a tourist destination. Sunbird and other private players continue to complement the Government in marketing Malawi however, so far, the impact of such efforts has been insufficient to have a significant effect.

STRATEGIC FOCUS AND DIRECTION

Sunbird continues to be guided by its rolling Five Year Strategic Plan and builds on past accomplishments to drive further improvements in product quality, customer service, staff satisfaction and development and internal management systems. Strategic objectives are statements of what the Group wants to achieve to advance its mission and address challenges while taking advantage of opportunities. Sunbird's core strategic objectives for 2014 focused on financial, infrastructure development, service delivery and image improvement. Most financial objectives were met except those targeted at the recapitalisation process. This also subdued the achievement of objectives on the planned infrastructure development. Great strides were made in customer service delivery, branding and image enhancement.

CORPORATE GOVERNANCE

The Group is committed to the principles of good corporate governance to fulfil its corporate governance obligations and responsibilities in the best interests of the Group and its stakeholders.

Sunbird has a strong leadership and governance structure in place, ensuring compliance with laws and regulations, promoting responsible business behaviours and overseeing the achievement of its strategic goals.

The Group is also listed on the Malawi Stock Exchange (MSE) and is therefore subject to the stringent MSE Rules.

BOARD AND MANAGEMENT

According to Clause 61 of the Articles of Association of Sunbird Tourism Limited the Board should consist of ten Directors. Throughout the year the Board had nine members.

The Board has the primary responsibility of oversight and directing the management of the Group in the interest, and for the benefit, of the Group and its shareholders. Furthermore, the Board decides the strategy and the risk policies and supervises the performance of the Group and its management. The Board performs some of its functions through committees of the Board currently the Finance and Audit Committee and the Appointments and Disciplinary Committee. The Board and the Committees meet at least once in each quarter with additional meetings held when appropriate. At each Board meeting a complete update on the affairs and business of the Group is presented by management.

The roles of the Chairman and the Chief Executive Officer are separated and the Chairman is a non-executive director. The attendance registers for Director's attendance at Board meetings and at the meetings of the various Board Sub-Committees are available for inspection at the registered office.

RISK MANAGEMENT AND INTERNAL AUDIT

The main risks facing the hotel industry are political risk, reputational risk, credit risk, liquidity risk, market risk and legal risk. These could have a negative effect on the Group and its financial condition. During the year the Group experienced the negative effects of political risk as explained in my overview above. However with the risk mitigation strategies employed, the Group was able to recover and can report a good performance at the end of the year. All other forms of risk were well contained because of the risk mitigation measures which the Group has in place expressly to contain these risks effectively.

The main focus of Sunbird's internal audit function is to review the effectiveness of internal procedures and systems and to deal with the prevention and detection of any irregularities. The Director of Internal Audit reports to the Audit Committee.

INVESTOR RELATIONS

The Board of Sunbird works to build a trusting relationship with its shareholders and other stakeholders. The Group is strongly committed to the principles of openness, transparency

and accountability, particularly on availability and access to relevant information in a full and reliable way.

DIRECTORATE

Director Mrs. Khumbize Chiponda resigned from the Board in June 2014 following her successful bid to become a Member of Parliament. She was replaced by Mrs. Grace Mkupe in the same month.

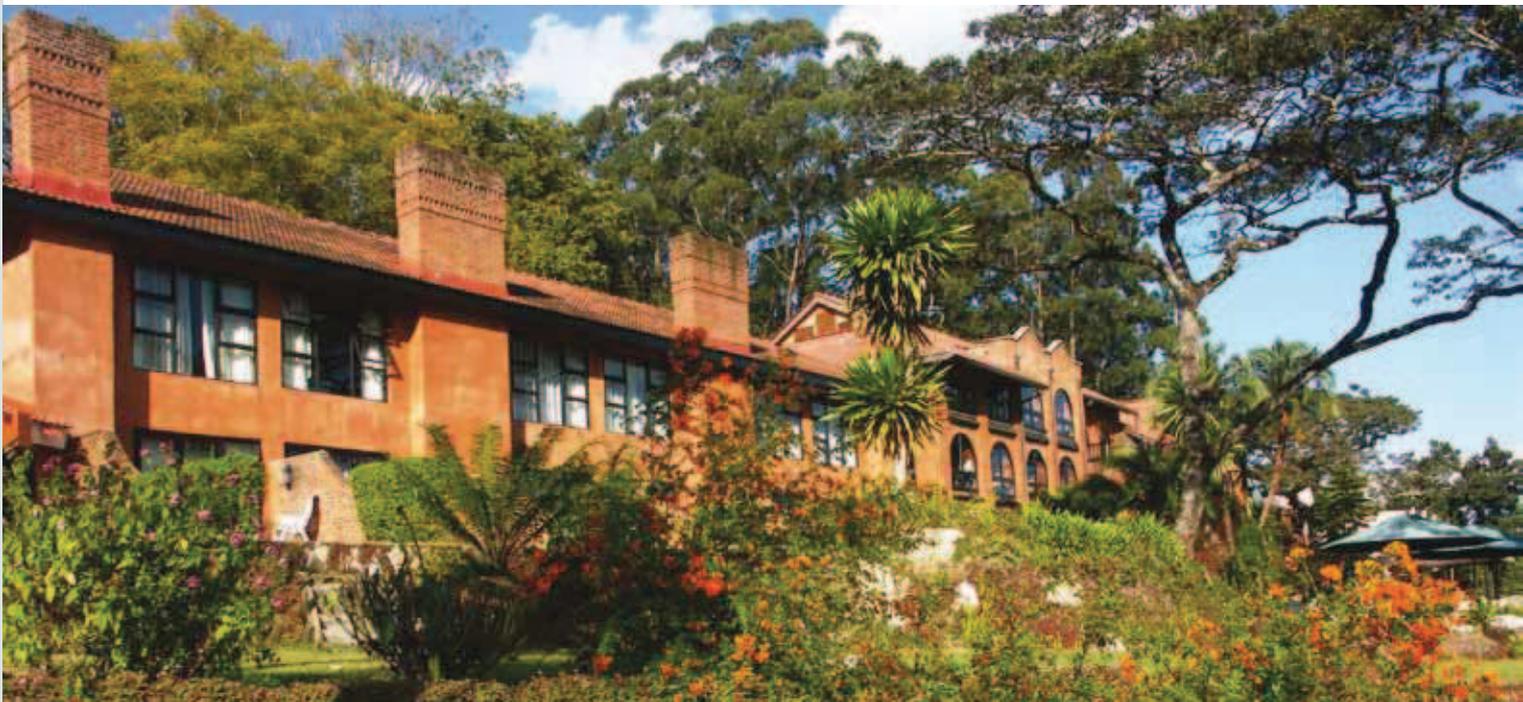
DIVIDEND DECLARATION

At the forthcoming Annual General Meeting the Board will recommend a total dividend of MK60 million or 22 tambala per share for the year 2014 (2013: MK55 million or 21 tambala per share).

During the year the Company paid an interim dividend of MK26 million or 10 tambala per share. The final dividend payable will therefore be MK34 million or 12 tambala per share.

OUTLOOK

As we look into 2015, the Board's priority will be to conclude the recapitalisation of the Company. It is only through recapitalisation that we can compete effectively with the emerging competition in the industry and drive sustainable



growth in shareholder value. Any sustainable growth in the absence of quality investment will remain an illusion. The Group has very ambitious plans for the refurbishment of the hotels especially the Sunbird Lilongwe hotel to be turned into a modern, up-market hotel to complement the advantage of its central location. There are plans to refresh and revitalise some of the restaurants and conference facilities and to build additional facilities.

The Malawi economy remains fragile and high inflationary conditions will continue to drive efforts to further reduce Sunbird's cost base, through ongoing cost-containment and continuous improvement programmes. The 2014/15 National Budget assumes an average inflation rate of 15.6 percent and a possible GDP growth rate of 6.1 percent. It is expected that at the end of that period, the rate of inflation will have decelerated to less than 15 percent and interest rates will also decline. It is also assumed that in view of this robust growth rate and deceleration in interest rates, economic activity will pick up and the economy will begin to function normally in the course of the financial year. Exchange rates and interest rates will continue to have a marked effect on the finances of the business and will need to be carefully monitored and managed.

APPRECIATION

On behalf of the Board, I would like to commend and thank the employees whose efforts helped the Group to achieve this strong performance in 2014 - in spite of the challenging economic environment. As we consolidate our leadership position in the hospitality industry that is becoming fiercely competitive, the hard

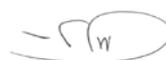
work, passion and loyalty of the staff will be a key ingredient of our success. The Board is committed to ensuring that all employees are well motivated and recognised for their efforts.

Finally, I wish to thank our guests for their continued support and loyalty and the shareholders who provide the capital to enable us run the Group on their behalf.

The shareholders' General Meeting will be held on 11 June 2015.

FAREWELL

In May 2010 it pleased the majority shareholder to appoint me as Chairman of Sunbird Tourism Limited. It is with a great sense of sadness that I now hand over the leadership of the Company to Mr Phillip Madinga who the Government has chosen to be my successor. Mr Madinga's nomination will be approved at the forth coming Annual General Meeting. I have enjoyed immensely my association with the Company and all stakeholders especially fellow directors, management and staff. I have no doubt that as Mr Madinga takes over the mantle, he will be accorded the same level of support and cooperation which I enjoyed. I wish the Board and my successor all the best as Sunbird moves up to the next stage of transformation and market consolidation as a true market leader in the industry in Malawi.



Leonard Chikadya

CHAIRMAN



Chief Executive's Report

OPERATING ENVIRONMENT

Sunbird's resilience to the difficult trading environment never ceases to surprise me. As reported in the Chairman's statement, once again, we have weathered extremely testing and uncertain economic and political circumstances, ending the year on yet another 'high'. While I would like to think that we can continue this good run, conditions are becoming ever tougher, with new hotels springing up all over the country. Our leverage remains our good name, synonymous with high service delivery standards. Our goal is always to offer value for money but this is becoming ever more difficult with operating costs spiralling uncontrollably upwards. Even as this report was written, despite dramatically lower oil prices and the Malawi Kwacha's recovery, prices from suppliers continue to increase while the availability of many essential Fast Moving Consumer Goods seems to be mysteriously declining, making at times our service delivery difficult. For this reason, maintaining our profitability margins is becoming more and more difficult as we aren't always able to pass the full extent of the cost increases over to our guests. Maintenance costs also remain a major cost due to the aging state of our equipment which necessitates constant repair and replacement of parts.

Despite Malawi's distance from the affected area and the positive steps taken by the Ministry of Health to prevent any infected person entering the country the outbreak of Ebola in West Africa resulted in the known cancellation of one large international conference. While we are not aware of any further significant losses, there must have been other conference organisers who held back any bookings while monitoring the situation.

REVENUE

In 2014 the Group generated revenues totalling MK10.4 billion which was 22% above the prior year revenues of MK8.5 billion. Occupancy remained at 57% in 2014 as was the case in 2013. The growth in revenues was mainly due to increased support that the Group continues to enjoy from the corporate and commercial segments of the market. During and after the elections, business reduced significantly as a result of security concerns as most people feared to travel. However, normal business later resumed enabling the recovery of some of the lost business by the end of the year.

Average Room Rate (ARR) for the year stood at MK40,934 compared to MK33,333 for the previous year. Consistent yield management practices and currency depreciation led to the improved ARR.

From August, 2012 Sunbird Capital was providing catering services for all functions held at the Bingu International Conference Centre (BICC) - until September 2014 when the contract was terminated in readiness for the new operators to take over the management of the facilities.

Domestic business continues to be dominant in the market. Until increased efforts are made in destination marketing and improvements in tourism infrastructure, this trend is likely to continue.

ADMINISTRATION COSTS

Administration and other expenses increased from MK4.7 billion in 2013 to MK6.1 billion in 2014. This represented 58% of revenue

compared to 55% of 2013. The Group continues to be affected by imported inflation since most of our supplies are imports.

PROFITABILITY

The Group's profit before tax increased by 89% from MK565 million in 2013 to MK1 billion in 2014.

The profit after tax increased by 53% from MK455 million in 2013 to MK695 million in 2014.

The staff morale throughout all Sunbird hotels is also at an all-time high and I serve this Company with pride alongside the greatest team of people it has been my privilege to work with, from the lowest level right through to my corporate office colleagues.



PERFORMANCE OF THE SUBSIDIARY- CATERING SOLUTIONS LIMITED

The subsidiary, Catering Solutions Limited had a good year in 2014. It achieved 21% revenue growth from MK 578.8 million in 2013 to MK 703.3 million in 2014 and profit before tax growth of 447%, from the MK 18 million achieved in 2013 to MK 100.2 million. Some of the major contracts which contributed to this achievement were: a new institutional catering contract at Malawi Institute of Management, allowing the Company now to have a foothold in all the three major cities of Blantyre, Lilongwe and Mzuzu. The Company also managed to achieve renewals of contracts at both at Moyale Barracks and Toyota Malawi. The subsidiary occupies premises at Chileka International Airport under a concession from the Department of Civil Aviation and it is pleasing to note that in the year the concession was also renewed for a further five year period thus ensuring security of tenure for the next five years.

The Company also completed the purchase of a building at Chileka International Airport from Skynet Limited which is now being turned into a modern restaurant, in-flight kitchen and offices. The opportunity to operate from its own premises will enable Catering Solutions to be more efficient which will improve the quality of its services. The project, which is being internally financed, is due to be completed in early 2015.

PROSPECTS

The business prospects for the subsidiary still look good as South African Airways has just been granted increased frequencies into Chileka Airport coupled with other outside catering opportunities currently being negotiated.

PUBLIC RELATIONS AND CORPORATE SOCIAL INVESTMENT

Behaving responsibly is part of Sunbird's values and is at the heart of everything we do. Sunbird strives to make a positive contribution in the communities where we operate.

HEALTH

In February, as the World Commemorated Cancer Day, Sunbird made a contribution towards World Cancer Day awareness celebrations in Lunzu, Blantyre and also procured furniture to be used in the newly rehabilitated Cancer Ward at Queen Elizabeth Central Hospital.

Sunbird Mount Soche also rehabilitated paediatric wards at Mlambe Mission Hospital, Blantyre carrying out much needed electrical, carpentry and plumbing works in the wards.

The corporate office commenced a programme serving meals to outpatients on chemotherapy at Queen Elizabeth Central Hospital (QECH) Oncology Ward. This service is conducted weekly when outpatients that are not included within the hospital's food budget come in to receive treatment.

The subsidiary, Catering Solutions Limited (CSL) donated essential drugs to Chileka Health Centre, Blantyre.

DIRECTORS



Leonard Chikadya
Chairman



Reagans Nkhoma
Director



Elsie Tembo
Director



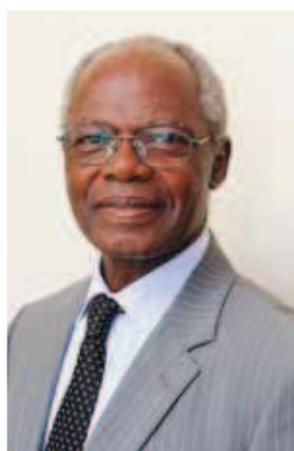
Grace Mkupe
Director



Noel Hayes
Director



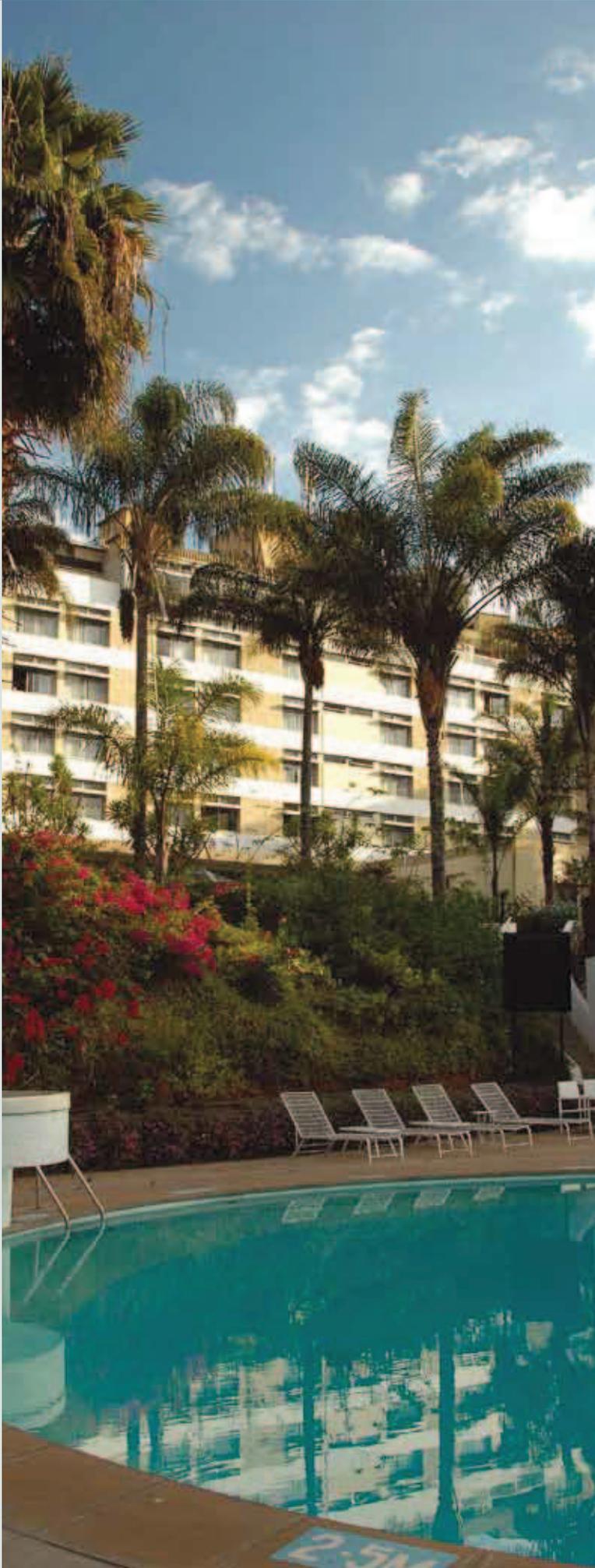
Jimmy Lipunga
Director



Andrew Sesani
Director



Anderson Kulugomba
Director



EDUCATION

To help improve the quality of education in Malawi's rural areas, Sunbird began sponsoring seven student teachers studying at Development Aid from People to People (DAPP) Teacher's Training Colleges. Each student will be sponsored for the entire duration of their three year course by a Sunbird Hotel or Resort. These students, selected after rigorous assessment, will be bonded to Sunbird by committing for three years after attainment of a diploma, to teach in the rural area where their sponsoring hotel or resort is located.

ARTS AND YOUTH TALENT

In May 2014, Sunbird introduced and sponsored an Arts section in the Media Institute of Malawi annual Press Awards to encourage and acknowledge the creative reporting of Arts and Entertainment by the media fraternity. In 2015, the section will permanently be refocused to Tourism and Sunbird will once again reward journalists who write effectively on tourism in Malawi.

From July to October 2014, the Group ran its biggest annual CSR event; The Sunbird Search For A Star; (SSS) in which young Malawians with musical talent are given training and exposure through live shows and television programmes as they compete to win the competition. In 2014, SSS worked with UNICEF to identify promising children's organisations and prior to each of the five live shows, contestants visited one organisation to mentor the children or youths and share a Sunbird meal with them.

CLIMATE CONSERVATION

Sunbird continues to explore all possible means of helping to preserve the environment.

To encourage the responsible disposal of waste, especially non-biodegradable items, Sunbird handed over more than 40,000 empty plastic water bottles to Landirani Trust in April 2014. The Trust has a model village situated in Lilongwe within which it has put up several structures using methods that are environmentally friendly (i.e. they use mud blocks and bottles instead of bricks). The bottles donated will be used in the building of compost toilets.

Sunbird also handed over the first lot of used paper to Tigwilizane Grouping in Thyolo. The Group recycles paper to make arts and crafts such as cards, folders, envelopes and place mats. These are then sold to interested parties. Part of the proceeds from their sales are given to their Church welfare committee. Sunbird is currently selling some of Tigwilizane's products in the hotel shop at Sunbird Mount Soche and is helping to increase awareness of the Group to help them source new markets.

During the 2014 tree planting season, the corporate office handed over 2,000 seedlings to Mbayani LEA Primary School in Blantyre. The agreement was that these are to be cared for by the School's Wildlife Club to ensure high survival rates of the trees.

OPERATIONS

SERVICE DELIVERY

Competition in the industry remains fierce and Sunbird will depend on its ability to compete on the basis of quality of accommodation (at

Sunbird Capital and Sunbird Mount Soche where all rooms were refurbished), brand recognition, quality of service, convenience of location and to a lesser extent, the quality and scope of other amenities, including food and beverage facilities.

To ensure consistent service delivery we have established quality standards for all of our hotels that cover housekeeping, maintenance, front office, finance, maintenance, marketing, minimum service offerings and other areas. Regularly inspections of all properties are conducted to ensure compliance with the set standards. A review of all standard operating procedures was carried out resulting in the roll-out of the updated procedures manuals.

All a la carte, buffet, banqueting and cyclical *table d'hote* menus were changed during the year in response to guest comments.

In order to increase the pool of available chefs Sunbird runs an in-house apprentice Chefs Programme. We had 17 apprentice chefs benefit from this programme who graduated in the year and are now working in various hotels.

If our service offering or the delivery of our services does not meet the standard and expectations of our guests we run the risk of having dissatisfied guests and potentially losing them. We therefore have to provide a channel for our guests to give us feedback on our products and services. Sunbird has an online Guest Satisfaction (e-Guest Survey) which is a tracking system which generates a questionnaire once a guest checks out of our

hotels. The programme is managed by a South African company, Diversified Technologies, on behalf of several regional and international hotel companies. While the guest feedback enables us to monitor our performance across all the service departments compared to regional benchmarks it also helps to know the level of guest satisfaction and to take corrective action where there are unsatisfied guests. In this regard the e-Guest survey is proving a very valuable management tool.

HEALTH AND SAFETY

Regular fire drills are carried out by all hotels and in the year quarterly fire drills were conducted. The drills are conducted to test and ensure that our staff are well-equipped and prepared for any eventuality. The safety of our staff and guests is paramount.

Quarterly quality assurance inspections were carried out. These also include health and safety audits to ensure safety for guests and staff.

Room care programmes are carried out continuously and repetitively at all hotels to ensure functionality of our equipment and facilities.

PROJECTS

Our main focus throughout the year was at Sunbird Capital, continuing our drive to bring all areas of the hotel up to international 4-star standard. All conference rooms received a well - deserved facelift and the toilet facilities servicing the conference rooms were also completely modernised.

Furniture and soft furnishings in 60 deluxe bedrooms, not refurbished in the 2010/2011

renovation programme, were renovated. Another 30 rooms, still to be renovated, will be attended to in the first quarter of 2015.

Vincent's Cocktail Bar (formerly Tidy Bar) was completed and re-opened in December 2014. This is the forerunner to a completely new Vincent's [fine dining] Restaurant at the old Tidy Restaurant, due for completion by mid-2015.

To meet the demands of guests who are becoming more and more fitness conscious we are adding a wellness facility at Sunbird Mount Soche which now only awaits the arrival of equipment. The Fitness Centre includes a steam room, hair and beauty salon and a treatment room.

SALES AND MARKETING

CUSTOMER RELATIONSHIP MANAGEMENT

Sunbird continued to build long-term customer relationships through intensified sales calls, offering our guests tailor-made packages, soliciting their calendar of events, getting market feedback and demands, rewarding and recognising our loyal customers by way of 'surprise and delight'. To enhance our brand we sought out accounts that had remained dormant for some time and were able, through engagement, to revive those dormant accounts. We focused much attention on retaining key and existing business.

MARKETING PROMOTION

Sunbird promoted many special revenue generated activities. We successfully conducted special accommodation and conference packages such as a 50 year Independence promotion, Live The Dream, Tidy and Picasso's

restaurant promotions, weekend special low rate offers and low season packages, as well as our traditional Summer and Winter getaway packages .

Sunbird's International market segment promotions included attendance at Meetings Africa Exhibition in Johannesburg; ITB Travel Show in Berlin, Germany; Zambian International Travel Exhibition in Lusaka; Indaba in Durban and Travel Trade Road Show in Johannesburg, Africa's tourism showcase; Gauteng Getaway Show in Johannesburg and World Travel Market in London. The Malawi Travel Marketing Consortium continues to represent Sunbird in the United Kingdom.

BRAND VISIBILITY

Sunbird increased brand visibility through its own website and on social sites such as Facebook and Twitter, Alliance websites and on all leading Global Distribution Systems including Expedia, Trip Advisor, International Vacations, Bookings.com, Hotels.com, Hotelbeds and Safari Now.

The Sunbird brand enjoyed an increased visibility share through advertising in all media platforms both electronic and print. These include Malawian Airlines in-flight magazine and ticket wallet, now reaching Ethiopian Airline's 79 destinations, database marketing, national television, local and international magazines and outdoor advertising which includes digital billboards.

MANAGEMENT



Roger Gardner
Chief Executive



Maureen Kachingwe
Company Secretary



Patrick Lisilira
Director of Finance



Felix Nakoma
Director of Operations



Samson Mwale
Director of Internal Audit



Edward Chunga
Group Human Resources Manager



Titania Katenga - Kaunda
Group Sales Manager

LOYALTY PROGRAMME

To better meet the different needs of our guests and to reward loyal guests we introduced a new loyalty card in the year called the Sunbird Hotelstay Loyalty card. The new loyalty card, which is in three categories, is a massive improvement on its predecessor, the Sunbird Premier Card. The Sunbird Hotelstay Card offers industry leading benefits, services and flexibility for our valued and loyal guests. The card has benefits redeemable beyond Malawi and South Africa offering unique advantages to travellers. Upon entry a member is instantly entitled to free accommodation vouchers. Other benefits which a member enjoys include discounts on Best Available Rate (BAR), free room vouchers on attaining specific room nights, room upgrades and discounts on dining among others.

EVENTS

The Lake of Stars International Music Festival was held at Sunbird Nkopola Lodge and the Sand Music Festival was held at Sunbird Livingstonia Beach. Both these events are now very popular annual events attracting interest not only from locals but also from the region, as well as from the United Kingdom.

INFORMATION TECHNOLOGY (IT)

The rapid pace of technological advancement is reshaping Sunbird's expectations in how services, benefits, and support should be delivered. Today's client expects instant access to information via the Internet as well as other IT enabled platforms for services such as reservations and booking channels. Wi-fi access is also a major issue as, in today's world, clients demand a mobile office. Sunbird therefore

continues to invest in a range of technology platforms not only in an effort to keep abreast of these emerging habits but also to increase its operational efficiency. Some of the initiatives in the year included introduction of the Sunbird-branded free Wi-fi internet service to in-house guests, installation of indoor access points at SMS and SCP to boost signal, strength and coverage. The Opera PMS upgrade takes advantage of the new features in Version 5.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

The human resources function continues to play the pivotal role of being an enabler of business success. That's why fostering the morale and motivation of employees and developing their individual abilities plays a central role in Sunbird.

The Sunbird brand is brought to life by staff who support the consistent delivery of the brand promise in each hotel. A number of programmes and initiatives were implemented in the year focusing on equipping staff with skills in emerging trends in customer service in order for them to be able to deliver experiences that remain relevant to ever changing guest preferences and needs and gives our brand 'top-of-the-mind' presence. Talent is also key to our success and we continue to invest in the development of our people both at a corporate level and in the hotels. In this regard staff development programmes carried out in the year included a chef who was sent to Switzerland for a one year culinary course, a hotel general manager who was sent to Cornell School of Hotel Administration in the USA to attend a General Manager's training workshop, eight management trainees who are pursuing

a 12 month Diploma in Hotel Operations course at the School of Tourism in Bulawayo, Zimbabwe. These initiatives are in addition to the ongoing in-house training programmes which are function specific. An exposure tour of hotels in Zanzibar was also carried out in the year by resort hotel managers to gain insight into current trends in resort operations.

In order to encourage hard work and passion for service, the Company recognises exceptional performers every year. The employees are chosen by their peers who recognise them for their effort, hard work and team spirit. In addition to a monetary reward, the employees are sent on a fully funded trip within the region. The trip is used as an opportunity to expose

the star performers to trends in the industry and open their eyes to new experiences not only for their own benefit but also for the benefit of their hotels. In 2014 the Employee and Supervisor of the year winners were rewarded with a trip to Victoria Falls in Livingstone, Zambia.

Long service awards were presented to those who had served the Company for more than 10 years. The Company also organised a chefs' competition which was aimed at challenging the chefs to be more creative and innovative in their profession.

The Group's head count for the year stood at 1,091 (previous year 1,064).



SUNBIRD CORE VALUES AND BELIEFS

Sunbird provides guidance for its employees in their daily work. The core values impact the culture, the brand, and the business strategies therefore making Sunbird quite unique. Sunbird's core values and beliefs contain, among others, a clear commitment to create a sense of pride, loyalty, ethical behaviour and a spirit of team approach to working. This translates into the way the staff interact with and serve the customer and each other.

INDUSTRIAL RELATIONS

The Company continued to enjoy a peaceful and harmonious work environment owing to the sound relationship which it enjoys with its Union and the values which the Company espouses. A workshop was organised in the year involving the Union and management which was aimed at further fostering the working relationship between the two.

WELLNESS / HIV AND AIDS

Guided by the HIV and AIDS Workplace Policy, Sunbird continued to implement Wellness, HIV and AIDS programmes in all its hotels during the year. Sunbird is committed to the fight against the pandemic which is considered as one of the major risks to the achievement of Sunbird's strategic goals. Sunbird commits resources to this programme and has a dedicated budget as well as a coordinator, Mr Arthur Mitepa, who is responsible for the management of the programme. Sunbird also provides support through 100% cover of all medical needs related to the condition as well as monthly provision of nutritional food supplements to those affected by the disease. This support extends to the employee's family where necessary.

In implementing its programmes the Company has had the support and cooperation of other HIV and AIDS partners and stake-holders who are involved in implementing HIV and AIDS activities.

The Group HIV and AIDS Coordinator, Mr Arthur Mitepa, attended a workshop in RSA on HIV and AIDS and Wellness programs. Locally a number of training programmes and interventions in line with the Company's HIV and AIDS Workplace Policy were also carried out.

The Company was re-appointed a Board Member of the Malawi Business Coalition Against HIV and AIDS (MBCA) representing the hospitality industry.

Sunbird also received a Gold Medal at the Employers' Consultative Association of Malawi (ECAM) 2014 Top Employers' Awards Competition in recognition of its efforts in implementing HIV and AIDS Workplace Wellness Programmes.

In closing, I wish to thank our excellent teams of managers and staff at the seven hotels and resorts as well as the team at Catering Solutions Limited, for the outstanding job they have done throughout the year under extremely difficult circumstances. My sincere and grateful thanks are also due to the highly professional corporate office team, without whose tireless efforts the continuing successes could not be achieved, and to the Chairman and Board of Directors for their clear and wise counsel.



Roger M Gardner

CHIEF EXECUTIVE



SUNBIRD

Hotels and Resorts

Sunbird Tourism Limited

FINANCIAL STATEMENTS

2014

Sunbird Tourism Limited
DIRECTORS' REPORT
 FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have pleasure in presenting their report together with the audited financial statements which comprise the consolidated and separate financial statements for the year ended 31 December 2014.

NATURE OF BUSINESS

Sunbird Tourism Limited is a leading operator in the hospitality industry in Malawi and has as its main activity, the ownership, operation and management of seven hotel properties in Malawi. Catering Solutions Limited, a 100% owned subsidiary, is involved in the provision of catering services. Hotel Livingstonia Limited, a 100% owned subsidiary, is a dormant company.

INCORPORATION AND REGISTERED OFFICE

Sunbird Tourism Limited is a company incorporated in Malawi under the Malawi Companies Act, 1984, and is domiciled in Malawi. The company was listed on the Malawi Stock Exchange on 22 August 2002.

The address of its registered office is:

28 Glyn Jones Road, P.O. Box 376, Blantyre, Malawi

CAPITAL

The authorised share capital of the company is MK14.0 million divided into 280,000,000 ordinary shares of 5 tambala each. The issued and fully paid up share capital is MK13.1 million divided into 261,582,580 ordinary shares of 5 tambala each.

The shareholders and their respective shareholdings are:

	2014	2013
	%	%
MDC Limited	71.00	71.00
Members of the public	12.56	14.17
Noel Hayes	16.44	14.83
	100.00	100.00

The share price at the year end was **MK8.00** (2013: MK7.00) per share.

STATE OF AFFAIRS

The state of affairs of the Group and Company is set out on page 24 of the financial statements.

DIVIDEND

During the year, a dividend of **MK28 million** representing 11 tambala per share was paid in respect of the year ended 31 December 2013 and an interim dividend of **MK26 million** representing 10 tambala per share was paid relating to the year ended 31 December 2014.

CORPORATE GOVERNANCE

Sunbird Tourism Limited has an overarching governance structure incorporating principles of good governance, to facilitate effective and dynamic management and oversight of a company as advocated in the code of best practice and conduct contained in Malawi Code II, Code of Best Practice to Corporate Governance in Malawi.

The Board is satisfied that the Company has made every practical effort to adapt all relevant principles of good corporate governance during the review period in so far as is applicable to the company and its subsidiaries.

RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board established the Finance and Audit Committee, which is

responsible for developing and monitoring the Group's financial risk management policies as set out in Note 4 to the financial statements. The committee reports regularly to the Board of Directors on its activities.

DIRECTORATE

The following directors served in the office during the year:

Mr. L. Chikadya	-	Chairman
Mr. R. Nkhoma	-	Director
Mrs. K. Chiponda	-	Director up to June 2014
Mr. J. Lipunga	-	Director
Mr. A. Sesani	-	Director
Mr. Noel Hayes	-	Director
Mr. A. Kulugomba	-	Director
Mrs. G. Mkupu	-	Director from June 2014
Ms. E. Tembo	-	Director
Mr. N. Kumwembe	-	Director
Mrs. M. Kachingwe	-	Company Secretary

The Company Secretary is not a director of the company.

Apart from Mr. Noel Hayes who is resident in Isle of Man, United Kingdom, the rest of the directors are resident in Malawi.

All directors are subject to retirement by rotation and re-election by the shareholders at least once every three years.

The Board meets at least four times a year including sessions devoted to strategy and business planning. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

All directors have access to management including the Company Secretary and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure effective functioning and proper administration of Board proceedings.

GOING CONCERN

The Board has satisfied itself that the Group and Company have adequate resources to continue in operation for the foreseeable future. The consolidated and separate financial statements have accordingly been prepared on a going concern basis.

INDEPENDENT AUDITORS

Messrs KPMG, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2015.

HOLDING COMPANY

The holding company is MDC Limited, a dormant company, which is wholly owned by the Malawi Government.

FOR AND ON BEHALF OF THE BOARD



(Director)
27 March 2015



(Director)

DIRECTORS' RESPONSIBILITY STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Sunbird Tourism Limited comprising the statements of financial position as at 31 December 2014 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 in accordance with International Financial Reporting Standards, and in the manner required by Malawi Companies Act, 1984. In addition, the directors are responsible for preparing the directors' report.

The Companies Act also requires the directors to ensure the company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and its subsidiaries and to ensure the financial statements comply with the Malawi Companies Act, 1984.

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 the consolidated and separate 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 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 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 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 ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Sunbird Tourism Limited were approved for issue by the Board of Directors on 27th March 2015 and were signed on its behalf by:



(Director)
27 March 2015



(Director)



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

Telephone: (265) 01 820 744 / 01 820 391
Telefax: (265) 01 820 575
E-mail: kpmg@kpmgmw.com

We have audited the accompanying consolidated and separate financial statements of Sunbird Tourism Limited, which comprise the statements of financial position as at 31 December 2014, 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 comprising a summary of significant accounting policies and other explanatory notes as set out on pages 24 to 64.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, 1984, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidation and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Sunbird Tourism Limited as at 31 December 2014, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, 1984.

Certified Public Accountants and Business Advisors
Blantyre, Malawi

10 April 2015

Sunbird Tourism Limited

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

In thousands of Malawi Kwacha

	Note	CONSOLIDATED		SEPARATE	
		2014	2013	2014	2013
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	6	14,140,977	13,757,269	13,960,283	13,594,698
Investment in subsidiaries	7	-	-	102,023	102,023
Total non-current assets		14,140,977	13,757,269	14,062,306	13,696,721
CURRENT ASSETS					
Inventories	8	917,849	784,936	887,794	767,944
Trade and other receivables	9	1,297,994	1,075,296	1,051,720	912,979
Amounts due from related parties	11	-	-	9,040	1,255
Income tax recoverable	24.2	-	8,157	-	-
Cash and cash equivalents	10	269,814	101,455	269,422	101,455
Total current assets		2,485,657	1,969,844	2,217,976	1,783,633
TOTAL ASSETS		16,626,634	15,727,113	16,280,282	15,480,354
EQUITY AND LIABILITIES					
Equity					
Share capital	12	13,079	13,079	13,079	13,079
Share premium		1,966	1,966	1,966	1,966
Revaluation reserve		5,928,806	5,969,774	5,835,915	5,876,883
Retained earnings		2,427,564	1,745,422	2,313,731	1,623,945
Total equity		8,371,415	7,730,241	8,164,691	7,515,873
NON CURRENT LIABILITIES					
Loans and borrowings	13	-	446,130	-	446,130
Corporate bond	14	2,240,000	1,540,000	2,240,000	1,540,000
Obligations under finance leases	15	158,052	112,597	158,052	112,597
Employee benefits	16	363,090	333,052	349,333	321,822
Deferred income-Government grants	6	39,249	30,799	39,249	30,799
Deferred tax liabilities	17	2,904,261	2,884,772	2,867,109	2,847,639
Total non-current liabilities		5,704,652	5,347,350	5,653,743	5,298,987
CURRENT LIABILITIES					
Bank overdraft	10	156,985	305,398	150,323	304,426
Trade and other payables	18	1,827,977	1,649,607	1,784,625	1,588,581
Employee benefits	16	279,304	236,282	254,629	236,282
Loans and borrowings	13	-	370,276	-	358,826
Obligations under finance leases	15	60,399	50,324	60,399	50,324
Deferred Income - Government grants	6	28,324	16,065	28,324	16,065
Amounts due to related parties	11	-	-	-	89,420
Income tax payable	24.2	197,578	21,570	183,548	21,570
Total current liabilities		2,550,567	2,649,522	2,461,848	2,665,494
TOTAL EQUITY AND LIABILITIES		16,626,634	15,727,113	16,280,282	15,480,354

The consolidated and separate financial statements were approved for issue by the Board of Directors on 27th March 2015 and were signed on its behalf by:



(Director)



(Director)

The notes on pages 30 to 64 are an integral part of these consolidated and separate financial statements. The independent auditor's report is on page 23.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

	Note	CONSOLIDATED		SEPARATE	
		2014	2013	2014	2013
Revenue	19	10,356,508	8,498,610	9,653,132	7,921,051
Cost of sales		(2,371,126)	(2,213,132)	(2,027,677)	(1,875,399)
Gross profit		7,985,382	6,285,478	7,625,455	6,045,652
Other income	20	82,058	47,032	157,056	31,230
Administrative and other expenses	21	(6,093,703)	(4,742,061)	(5,836,036)	(4,515,247)
Results from operating activities		1,973,737	1,590,449	1,946,475	1,561,635
Finance expenses	22	(904,199)	(1,025,441)	(902,148)	(1,013,443)
Profit before income tax	23	1,069,538	565,008	1,044,327	548,192
Income tax expenses	24.1	(374,389)	(109,880)	(341,534)	(97,671)
Profit for the year		695,149	455,128	702,793	450,521
Other comprehensive income, net of tax					
Items that will never be reclassified to profit or loss					
Revaluation of property, plant and equipment net of deferred tax		-	78,721	-	-
Total other comprehensive income for the year		-	78,721	-	-
Total comprehensive income		695,149	533,849	702,793	450,521
Profit attributable to:					
Owners of the Company		695,149	453,993	702,793	450,521
Non-controlling interests		-	1,135	-	-
		695,149	455,128	702,793	450,521
Total comprehensive income attributable to:					
Owners of the Company		695,149	532,714	702,793	450,521
Non-controlling interests		-	1,135	-	-
		695,149	533,849	702,793	450,521
Earnings per share (tambala) Basic and diluted	25	266	174		

The notes on pages 30 to 64 are an integral part of these consolidated and separate financial statements. The independent auditor's report is on page 23.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

CONSOLIDATED	Share capital	Share premium	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
2014							
At 1 January 2014	13,079	1,966	5,969,774	1,745,422	7,730,241	-	7,730,241
Total comprehensive income for the year							
Profit for the year	-	-	-	695,149	695,149	-	695,149
Other comprehensive income							
Realisation of excess depreciation, net of deferred tax	-	-	(40,968)	40,968	-	-	-
Total comprehensive income for the year							
	-	-	(40,968)	736,117	695,149	-	695,149
Transactions with owners of the company recognised directly in equity							
Dividend paid	-	-	-	(53,975)	(53,975)	-	(53,975)
At 31 December 2014	13,079	1,966	5,928,806	2,427,564	8,371,415	-	8,371,415

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

CONSOLIDATED	Share capital	Share premium	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
2013							
At 1 January 2013	13,079	1,966	5,932,021	1,317,983	7,265,049	80,428	7,345,477
Total comprehensive income for the year							
Profit for the year	-	-	-	453,993	453,993	1,135	455,128
Other comprehensive income							
Revaluation surplus on property, plant and equipment	-	-	112,459	-	112,459	-	112,459
Deferred tax on revaluation surplus of property, plant and equipment	-	-	(33,738)	-	(33,738)	-	(33,738)
Realisation of excess depreciation, net of deferred tax	-	-	(40,968)	40,968	-	-	-
Total comprehensive income for the year	-	-	37,753	494,961	532,714	1,135	533,849
Transactions with owners of the company recognised directly in equity							
Acquisition of non-controlling interest without change in control	-	-	-	(20,437)	(20,437)	(81,563)	(102,000)
Dividend paid	-	-	-	(47,085)	(47,085)	-	(47,085)
At 31 December 2013	13,079	1,966	5,969,774	1,745,422	7,730,241	-	7,730,241

The notes on pages 30 to 64 are an integral part of these consolidated and separate financial statements.
The independent auditor's report is on page 23.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

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SEPARATE	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
2014					
At 1 January 2014	13,079	1,966	5,876,883	1,623,945	7,515,873
Total comprehensive income for the year					
Profit for the year	-	-	-	702,793	702,793
Other comprehensive income					
Realisation of excess depreciation, net of deferred tax	-	-	(40,968)	40,968	-
Total comprehensive income for the year	-	-	(40,968)	743,761	702,793
Transactions with owners of the company recognised directly in equity					
Dividend paid	-	-	-	(53,975)	(53,975)
At 31 December 2014	13,079	1,966	5,835,915	2,313,731	8,164,691
2013					
At 1 January 2013	13,079	1,966	5,917,851	1,179,541	7,112,437
Total comprehensive income for the year					
Profit for the year	-	-	-	450,521	450,521
Other comprehensive income					
Realisation of excess depreciation, net of deferred tax	-	-	(40,968)	40,968	-
Total comprehensive income for the year	-	-	(40,968)	491,489	450,521
Transactions with owners of the company recognised directly in equity					
Dividend paid	-	-	-	(47,085)	(47,085)
At 31 December 2013	13,079	1,966	5,876,883	1,623,945	7,515,873

The notes on pages 30 to 64 are an integral part of these consolidated and separate financial statements. The independent auditor's report is on page 23.

Sunbird Tourism Limited
STATEMENTS OF CASHFLOW
 FOR THE YEAR ENDED 31 DECEMBER 2014
 In thousands of Malawi Kwacha

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	Notes	CONSOLIDATED		SEPARATE	
		2014	2013	2014	2013
Cash flows from operating activities					
Cash receipts from customers		10,056,699	7,669,905	9,517,052	7,059,245
Cash paid to suppliers and employees		(7,893,086)	(5,934,788)	(7,396,618)	(5,362,200)
Cash generated from operations					
Interest paid	22	(875,514)	(982,722)	(873,463)	(970,724)
Income tax paid	24.2	(169,401)	(44,468)	(160,086)	(29,481)
Net cash from operating activities					
Cash flows from investing activities;					
Purchase of property, plant and equipment	6	(688,265)	(415,262)	(659,275)	(411,520)
Interest received		2	4,659	-	-
Proceeds from sale of plant, property and equipment		21,420	12,941	18,093	12,941
Net cash used in investing activities					
Cash flows from financing activities					
Proceeds from borrowings	13.1	1,621,669	167,527	1,621,669	142,527
Repayment of borrowings	13.1	(1,685,209)	(470,027)	(1,673,759)	(456,477)
Dividends paid to owners of the Company		(53,975)	(47,085)	(53,975)	(47,085)
Net cash utilised from financing activities					
Net increase/(decrease) in cash and cash equivalents					
Cash and cash equivalents at beginning of the year					
Effect of exchange rate fluctuations on cash held					
Cash and cash equivalents at end of the year					
Additional statutory disclosures					
Net movement in working capital		614,769	433,788	637,990	425,940

The notes on pages 30 to 64 are an integral part of these consolidated and separate financial statements. The independent auditor's report is on page 23.

1. REPORTING ENTITY

Sunbird Tourism Limited ('the company') is a company incorporated in Malawi.

The company is a subsidiary of MDC Limited, a dormant company incorporated in Malawi. The ultimate shareholder is the Malawi Government.

The Group comprise the company and its subsidiaries (together referred to as 'the Group' and individually as 'group entities'); Catering Solutions Limited and Hotel Livingstonia Limited. The subsidiaries are incorporated in Malawi.

The main business of the company and its subsidiary is the provision of hotel accommodation, catering and related tourist services. The postal address of its principal business and registered office is: Sunbird Tourism Limited, P.O. Box 376, Blantyre, Malawi. Sunbird Tourism Limited is listed on the Malawi Stock Exchange.

2. BASIS OF PREPARATION

a) **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Malawi Companies Act 1984. They were authorised for issue by the Company's board of directors on **27th March 2015**. Details of the Group's accounting policies, including changes during the year, are included in notes 3 to 5.

b) **Basis of measurement**

The financial statements have been prepared on the historical cost basis except for certain property, plant and equipment which is measured at fair value.

c) **Functional and presentation currency**

These financial statements are presented in Malawi Kwacha, which is the company's functional currency. Unless specifically expressed, all financial information is presented in Malawi Kwacha and has been rounded to the nearest thousand.

d) **Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS, require 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 prospectively. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with significant risk of material adjustment in the next year are discussed in note 5.

e) **Changes in accounting policies**

The Group has consistently applied the accounting policies as set out in note 3 to all periods presented in these financial statements.

f) 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 December 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these early:

- **IFRS 9 Financial Instruments;** IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

The effective date is annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers;** IFRS 15 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 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

- **Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans;** The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over employee's working lives.

The effective date for this amendment is annual periods beginning on or after 1 July 2014. The Group is assessing the potential impact on its consolidated financial statements resulting from this amendment.

- **Amendment to IAS 27, 'Separate financial statements' regarding the equity method;** The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The effective date for this amendment is annual periods beginning on or after 1 January 2016. The Group is assessing the potential impact on its consolidated financial statements resulting from this amendment.

2. BASIS OF PREPARATION (CONTINUED)

f) *New standards and interpretations not yet adopted (continued)*

- **Annual improvement to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'** are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements, and have been applied consistently by group entities.

3.1 Basis of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The accounting policies of subsidiaries are aligned to policies adopted by the "Group".

Intra-group balances and unrealized income and expenses arising from inter-group transactions are eliminated. Unrealized gains arising from transactions with subsidiaries are eliminated against the investment to the extent of the Group's interest in the subsidiary. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in ownership interests in subsidiary without change of control

After control is obtained, changes in ownership interests that do not result in loss of control are accounted for as equity transactions—that is—as transactions with owners in their capacity as owners. This means that no gain or loss from these changes should be recognised in profit or loss. It also means that no change in the carrying amounts of the subsidiary's assets or liabilities should be recognised as a result of such transactions.

3.2 Property, plant and equipment

Buildings for the supply of goods or services, or for administrative purposes, are measured at their re-valued amounts, being the fair value at the date of revaluation, less accumulated depreciation and any impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property is credited to a non-distributable revaluation reserve through other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such property is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. Depreciation on re-valued property, plant and equipment is recognised in profit or loss. On the realization of re-valued property, either through sale or use, the attributable revaluation surplus in the revaluation reserve is transferred directly to retained earnings. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the

revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Work in progress, being properties in the course of construction for production or administrative purposes are measured at cost, less any recognised impairment loss. Cost includes cost of self-constructed assets including the cost of materials and direct labour and any other costs directly attributable to bring the asset to a working condition and its intended use and the cost of dismantling and carrying the items and restoring the site on which they are located.

Plant, vehicles and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When components of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment and depreciated based on the components useful lives.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company or Group and its cost can be measured reliably and the carrying value of the replaced part is derecognised. The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred. Professional fees directly attributable to qualifying assets and borrowing costs are capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are available for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, less estimated residual values, over their current estimated useful lives, using the straight-line method as follows. The estimated useful lives for the current and comparative period are as follows:

Freehold property	-	33 - 50 years
Leasehold property	-	33 - 50 years
Plant, vehicles and equipment	-	3 - 10 years

Useful lives, depreciation methods and residual values are re-assessed at each reporting date. Freehold Land, Long-term Leasehold Land and work in progress are not depreciated.

The gain or loss arising on the sale or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leased assets

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

3.3 Inventories

Inventories consist of foodstuffs, consumables and merchandise. Inventories are measured at the lower of cost and net realisable value. The carrying amount of inventory is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in other comprehensive income.

The current tax is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated and separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or by different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity or other comprehensive income.

Additional income taxes that arise from distribution of dividends are recognised at the same time as a liability to pay the related dividend is recognised.

3.5 Foreign currency translations

The results and financial position of the company are presented in Malawi Kwacha, which is the functional currency of the Group.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.6 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

3.7 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Revenue from sales of goods and services is recognised when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that the economic benefit associated with the transaction will flow to the company, the associated costs and amount of revenue of goods can be measured reliably and there is no continuing management involvement with the goods.

For accommodation revenue the transfer of risks and rewards occurs when a customer's reservation is confirmed. For catering revenue transfer occurs when a customer's order is confirmed.

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period shall not exceed the amount of borrowings costs it incurred during the year.

All other borrowing costs are recognised in profit or loss using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets held under other leases are classified as operating leases and are not recognized in the consolidated and separate statements of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

3.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that the Group will be required to settle that obligation. Provisions are estimated at the directors' best estimate of the expenditure required to settle the obligation at the reporting date.

3.11 Financial instruments

Recognition

On initial recognition, a financial asset or financial liability is measured at fair value plus directly attributable transaction costs, unless the instrument is classified as at fair value through profit or loss. Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Derecognition

Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a company of similar transactions such as in the company's trading activity.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques.

Trade receivables

Trade receivables are measured on initial recognition at fair value, being the consideration expected to be received on settlement plus directly attributable costs. Subsequent measurement is at amortised cost using the effective interest method less impairment losses. Appropriate impairment allowances are recognised in the profit or loss when there is objective evidence that the asset is impaired.

Amounts due from related parties

Amounts due from related parties are measured on initial recognition at fair value, being the consideration expected to be received on settlement plus directly attributable costs. Subsequent measurement is at amortised cost using the effective interest method less impairment losses. Appropriate impairment allowances are recognised in the profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents include bank overdrafts.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs (see above).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Financial instruments (continued)

Corporate bonds

Corporate bonds are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost.

Trade payables and accruals

Trade payables are initially measured at fair value, being the amount expected to be incurred on settlement plus directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method.

Amounts due to related parties

Amounts due to related parties are initially measured at fair value, being the amount expected to be incurred on settlement plus directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method.

3.12 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually, significant financial assets are tested for impairment on an individual basis. The remaining financial assets as well as individually significant financial assets that are not individually found to be impaired are assessed collectively in groups that share similar credit risk characteristics.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, 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 either through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised and that event causes the amount of impairment loss to decrease. For financial assets an impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to the units to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. The calculation of basic earnings per share is based on the profit or loss attributable to ordinary shareholders for the year and the weighted average number of shares in issue throughout the year. Where new equity shares have been issued by way of capitalisation or share split, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly. Where there are no dilutory effects to the shares in issue, the basic and dilutory EPS is the same.

3.14 Dividend per share

The calculation of dividend per share is based on the dividends payable to shareholders (inclusive of the related withholding tax) during the year divided by the number of ordinary shares on the register of shareholders at the date of payment.

3.15 Investment in subsidiaries

The investment in the subsidiaries in the separate financial statements of the company is stated at cost less any accumulated impairment losses.

3.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO, who is the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Finance income and expenses

Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets that are recognised in profit or loss.

Foreign currency gains and losses

Foreign currency gains and losses are reported on a net basis.

3.18 Share capital, share premium and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Equity instruments are recorded at the proceeds received, net of direct issue cost.

3.19 Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other income.

3.20 Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.

Grants relating to the cost of an asset are subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

Grants that compensate the group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

4. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated and separate financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Committee

4.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related parties and cash and deposits with financial institutions.

Cash and cash equivalents

The Group places its cash with banks licensed by the Central Bank.

Amounts due from related parties

Management assesses the credit quality of a related party taking into account its financial position and past experience. The utilization of credit limits are regularly monitored with reference to historical information about default rates.

Trade and other receivables

The Group's credit risk is primarily attributed to credit facilities extended to its customers. No interest is charged on trade receivables for overdue debts. The amounts presented in the statement of financial position are net of allowance for credit losses. The specific allowance is estimated by management based on prior experience and current economic environment. The Group has an established credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes bank and supplier references. Credit limits are established for each customer and these are reviewed quarterly. Customers who fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses strong cash forecasting systems which assist it in monitoring cash flow requirements. This is further enhanced by reviewing actual cash flows against the forecasts, learning from past trends and preparing updated rolling forecasts to replace earlier less reliable forecasts. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses and servicing of financial obligations. In addition, the Group and the Company maintains the following lines of credit:

- MK25 million (2013: MK175 million) overdraft facility with National Bank of Malawi whose interest rate is at the bank's base lending rate currently at 38% per annum (2013: 35%).
- MK150 million (2013: MK150 million) overdraft facility with Standard Bank Limited whose interest rate is at the bank's base lending rate currently at 37% per annum (2013: 35%).

All the above facilities are secured over the Group's property. The overdraft facilities are repayable on demand and are renewed annually.

4.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of Group entities primarily the Malawi Kwacha. The currencies in which these transactions are primarily denominated are Euro, USD, GBP and South African Rand.

All purchases in foreign currency are economically hedged by Foreign Currency Denominated Accounts (FCDA's) in the same currencies. Any purchase in USD is paid for using funds in a USD account and the same applies to Euro, GBP and South African Rand. Similarly, loans in foreign currency are repaid using funds in an FCDA account of the same currency. The company generates foreign currency through its normal operations but opts to set aside foreign currency funds in FCDA accounts to cover its foreign currency denominated liabilities as a hedge.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily Kwacha, but also USD. This provides an economic hedge and no derivatives are entered into.

(ii) Interest rate risk

The Group adopts a policy of ensuring that some borrowings are at fixed rates and others are at variable rates depending on the currency of the borrowings, terms and conditions.

(iii) Equity prices

The Group is currently not exposed to the risk of changes in equity prices.

4.4 Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board through its Finance and Audit Committee, monitors its capital adequacy and capital returns to ensure that it remains a going concern while maximizing returns to shareholders.

The capital structure of the company comprise of share capital and share premium, revaluation reserves and retained earnings as disclosed on the statement of changes in equity.

The Audit Committee reviews the capital structure on a regular basis. As part of this review, the Committee considers the cost of capital and its associated risks. Based on recommendations of the committee, the company will balance its overall capital structure through the payment of dividends and revaluations of its assets.

There were no changes in the group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to any externally imposed capital requirements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

5.1 Critical judgements in applying the group's significant accounting policies

5.1.1 Valuation of properties

The Group carries its properties at revaluation model. Mr. E. Jambo M.Sc (Real Estate), MBA; BA (Pub. Admin) a qualified valuer, of Malawi Property Investment Company Limited, valued the properties of the Company as at 31 December 2012 and of the Subsidiary as at 31 December 2013 on an open market value basis using the income approach methodology. Key assumptions made for the purpose of the valuation were: that the lease will be renewed by the Malawi Government upon expiry; that the useful life will exceed 50 years from date of valuation; and allowances were made for age and obsolescence.

5.1.2 Valuation of trade and other receivables

Trade and other receivables are substantially denominated in Malawi Kwacha. The carrying amounts of trade and other receivables are presented net of specific allowances for impairment losses. The specific provision is estimated by management based on prior experience and current economic environment.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.2 Key sources of estimation and uncertainty

5.2.1 Employee benefits

Pension accrual

The Pension Act, 2010 provides for transitional provisions for the conversion of severance liability into pension obligations. The Pension Act, 2010 provides for a grace period of eight years for entities to arrange the financing of this liability through the transfer of severance entitlement to a pension's fund.

5.2.2 Short term employee benefits

Short term employee benefits which are staff bonuses are based on the existing staff bonus policy payable after approval by the Board.

5.2.3 Legal claims

An estimate of legal claims made against the Group in the ordinary course of business, whose outcome is uncertain has been disclosed in the note on contingent liabilities. The amount disclosed represents an estimated cost to the company in the event that legal proceedings find the company to be in the wrong. The estimate is provided by the Group's lawyers.

5.2.4 Guarantees

Guarantees are in respect of the company's maximum exposure at the reporting date if guarantees entered into by the company in support of staff borrowings from financial institutions were called upon.

6. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Freehold property	Leasehold property	Plant, vehicles & equipment	Work in Progress	Total
2014					
Cost or valuation					
At 1 January 2014	8,527,568	4,203,432	1,900,960 ◊	131,802	14,763,762
Additions during the year	137,121	29,910	401,691	119,543	688,265
Work in progress capitalised	23,189	22,053	16,733	(61,975)	-
Reallocation	(660,540)*	686,274*	(25,734)*	-	-
Disposals during the year	-	(1,598)	(65,634)	-	(67,232)
At 31 December 2014	8,027,338	4,940,071	2,228,016 ◊	189,370	15,384,795
Accumulated depreciation and impairment losses					
At 1 January 2014	39,131	23,064	944,298	-	1,006,493
Charge for the year	41,059	26,335	217,423	-	284,817
Reallocation	6,173*	-	(6,173)*	-	-
Eliminated on disposals	-	-	(47,492)	-	(47,492)
At 31 December 2014	86,363	49,399	1,108,056	-	1,243,818
Carrying value					
At 31 December 2014	7,940,975	4,890,672	1,119,960	189,370	14,140,977
2013					
Cost or valuation					
At 1 January 2013	8,437,466	4,090,523	1,728,529 ◊	130,585	14,387,103
Additions during the year	-	4,411	234,666	178,672	417,749
Work in progress capitalised	8,178	78,548	2,322	(89,048)	-
Work in progress transferred to stocks	-	-	-	(88,633)	(88,633)
Reallocation	(226)*	-	-	226*	-
Revaluation surplus	82,150	29,950	-	-	112,100
Disposals during the year	-	-	(64,557)	-	(64,557)
At 31 December 2013	8,527,568	4,203,432	1,900,960 ◊	131,802	14,763,762
Accumulated depreciation and impairment losses					
At 1 January 2013	-	310	782,389	-	782,699
Charge for the year	39,131	23,113	209,410	-	271,654
Released on revaluation	-	(359)	-	-	(359)
Eliminated on disposals	-	-	(47,501)	-	(47,501)
At 31 December 2013	39,131	23,064	944,298	-	1,006,493
Carrying value					
At 31 December 2013	8,488,437	4,180,368	956,662	131,802	13,757,269

◊ The amount includes motor vehicles purchased under finance lease amounting to **MK329m** (2013: MK232m).

* Reallocation of property, plant and equipment relate to assets which were previously allocated under a wrong class of assets now corrected after determination of the right classification.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of Malawi Kwacha

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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SEPARATE	Freehold property	Leasehold property	Plant, vehicles & equipment	Work in Progress	Total
2014					
Cost or valuation					
At 1 January 2014	8,420,794	4,169,809	1,845,018 ◊	129,783	14,565,404
Additions during the year	137,121	13,910	394,766	113,478	659,275
Work in progress capitalised	23,189	22,053	16,733	(61,975)	-
Reallocation	(660,766)*	686,500*	(25,734)*	-	-
Disposals during the year	-	-	(60,153)	-	(60,153)
At 31 December 2014	7,920,338	4,892,272	2,170,630 ◊	181,286	15,164,526
Accumulated depreciation and impairment losses					
At 1 January 2014	39,131	23,064	908,511	-	970,706
Charge for the year	41,059	25,960	210,330	-	277,349
Reallocation	6,173*	-	(6,173)*	-	-
Eliminated on disposals	-	-	(43,812)	-	(43,812)
At 31 December 2014	86,363	49,024	1,068,856	-	1,204,243
Carrying value					
At 31 December 2014	7,833,975	4,843,248	1,101,774	181,286	13,960,283
2013					
Cost or valuation					
At 1 January 2013	8,412,616	4,086,850	1,677,023 ◊	130,585	14,307,074
Additions during the year	-	4,411	230,230	176,879	411,520
Work in progress capitalised	8,178	78,548	2,322	(89,048)	-
Work in progress transferred to inventories	-	-	-	(88,633)	(88,633)
Disposals during the year	-	-	(64,557)	-	(64,557)
At 31 December 2013	8,420,794	4,169,809	1,845,018 ◊	129,783	14,565,404
Accumulated depreciation and impairment losses					
At 1 January 2013	-	-	753,817	-	753,817
Charge for the year	39,131	23,064	202,195	-	264,390
Eliminated on disposals	-	-	(47,501)	-	(47,501)
At 31 December 2013	39,131	23,064	908,511	-	970,706
Carrying value					
At 31 December 2013	8,381,663	4,146,745	936,507	129,783	13,594,698

◊ The amount includes motor vehicles purchased under finance lease amounting to **MK321m** (2013:MK224m).

* Reallocation of property, plant and equipment relate to assets which were previously allocated under a wrong class of assets now corrected after determination of the right classification.

Additions

Additions comprise the following:

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
Cash purchases	688,265	415,262	659,275	411,520
Accrued purchases	-	2,487	-	-
Total additions	688,265	417,749	659,275	411,520

Properties (Land and buildings)

Carrying amount at end of the year comprise the following:

Purchase cost	3,947,865	3,726,497	3,924,030	3,716,689
Subsequent revaluations	8,883,782	8,942,308	8,753,193	8,811,719
At 31 December	12,831,647	12,668,805	12,677,223	12,528,408

Land and buildings were valued as at 31 December 2012 for the company and as at 31 December 2013 for the subsidiary by Mr. E Jambo, M.Sc: Real Estate; MBA; BA (Pub. Admin), a qualified and independent valuer on an open market value basis.

If land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

Cost	6,991,922	6,753,914	6,930,014	6,708,006
Accumulated depreciation	3,044,057	3,027,417	3,005,984	2,991,317
Carrying amount	3,947,865	3,726,497	3,924,030	3,716,689

The registers of land and buildings are available for inspection at the registered offices of the respective companies.

The fair value measurement of land and buildings of MK12.832 billion has been categorised as a level three fair value based on the inputs to the valuation techniques.

All properties are encumbered as indicated in notes 10, 13, 14 and 15.

Work in progress

Work in progress represents expenditure incurred on re-development of the Group's properties.

Government grants

Duty Waiver Grant

The Malawi Government's Customs and Excise Amendment Order, 2009 under Customs Procedure Codes 4000.442 and 4071.442 extended duty-free status to qualifying Tourism Institutions that directly imported qualifying goods as described in the Customs Procedure Code.

In the course of the Redevelopment and Refurbishment programme in 2009 the Group qualified for duty waiver of MK101 million and excise duty of MK26 million, amounting to a total Government grant of MK127 million. The grant of MK127 million was recognised as deferred income in 2009. The grant is being amortised over the estimated useful life of the assets to which it relates.

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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Government grants (continued)**Electronic Fiscal Device Cost Recovery Grant**

The Malawi Government's Value Added Tax (VAT) Act (Cap 42.02) Amendment of 2014 introduced the mandatory use of electronic fiscal devices (EFDs) for all VAT operators in Malawi. The Malawi Revenue Authority (MRA), which was mandated to implement the usage of fiscal devices, introduced a cost recovery system for all VAT operators who procured the EFDs within a prescribed period. Such operators were allowed to claim 100% of the cost as input VAT.

The Group procured EFDs worth MK37 million and claimed this in full from the Malawi Revenue Authority under the cost recovery system. The MK37 million was capitalised in computer equipment in 2014 and deferred income has been recognised. The grant is being amortised over the estimated useful life of the asset.

CONSOLIDATED AND SEPARATE

	2014	2013
Total Government grant	46,864	62,929
Add: Government grant related to assets received during the year	36,774	-
Less: Amounts recognised in the statement of comprehensive income-note 20	(16,065)	(16,065)
Total deferred income	67,573	46,864
Deferred income to be recognised:		
After one year	39,249	30,799
Within one year	28,324	16,065
	67,573	46,864

In 2010, the Malawi Government reversed the duty-free status of most of the goods that qualified for duty exemption under the customs and excise amendment order 2009.

7. INVESTMENT IN SUBSIDIARIES

	PERCENTAGE HOLDING		SEPARATE	
	2014	2013	2014	2013
Shares at cost:	%	%		
Hotel Livingstonia Limited	100	100	-	-
Catering Solutions Limited:				
At 1 January	100	65	102,023	23
Acquisition during the year	-	35	-	102,000
At 31 December	100	100	102,023	102,023

Total subsidiary companies

In 2007 the company transferred the property underlying the investment in Hotel Livingstonia Limited and the investment cost of MK62 million was impaired.

In July 2013, Air Malawi Limited (Liquidated) offered to sell its 35% shareholding in Catering Solutions Limited to Sunbird Tourism Limited. Sunbird Tourism Limited accepted the offer and bought the 35% shareholding for a value of MK102 million. With this additional shareholding Sunbird Tourism Limited holds 100% ownership of Catering Solutions Limited.

The share purchase agreement provided that the settlement of the shares value should be a set-off with amounts that were owed by Air Malawi and hence no cash consideration.

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013

8. INVENTORY

Merchandise	371,924	358,826	357,632	352,667
Consumables	406,021	300,303	400,451	296,313
Food, drink, tobacco	139,904	125,807	129,711	118,964
	917,849	784,936	887,794	767,944

9. TRADE AND OTHER RECEIVABLES

Trade receivables	1,056,753	873,486	835,306	717,976
Other receivables	241,241	201,810	216,414	195,003
	1,297,994	1,075,296	1,051,720	912,979

10. CASH AND CASH EQUIVALENTS

Bank balances	269,814	101,455	269,422	101,455
Bank overdrafts	(156,985)	(305,398)	(150,323)	(304,426)
Cash and cash equivalents	112,829	(203,943)	119,099	(202,971)

Bank overdraft facilities totalling **MK175m** (2013: MK325m) are secured by a charge over the company's assets in favour of Standard Bank Limited and National Bank of Malawi Limited whose net book value at 31 December 2014 was **MK12.8 billion** (2013: MK12.5 billion). Interest is charged at the banks' base lending rate currently at 38% per annum (2013: 40%). The facilities are repayable on demand and are renewed annually.

11. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The company's related parties comprise of the holding company and its subsidiaries and key management personnel. Material balances and transactions are as follows:

Amounts due from related parties

Hotel Livingstonia Limited (Subsidiary)	-	1,255
Catering Solutions Limited (Subsidiary)	9,040	-
Total amount due from related parties	9,040	1,255

Amount due to related parties

Amounts due to related parties

Catering Solutions Limited (Subsidiary)	-	89,420
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11. RELATED PARTY TRANSACTIONS (CONTINUED)**Parent and ultimate controlling party (continued)**

These balances arose from the normal course of trading between the parent and the subsidiary company at arm's length and are to be settled within a year of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties. The parent company guarantees a MK25 million overdraft facility for Catering Solutions Limited.

Compensation of key management personnel

The key management personnel comprise the executive officers of the company.

In addition to salaries, the Group also provides non-cash benefits by way of contribution to a defined contribution pension plan on their behalf. In accordance with the plan, executive officers contribute 5% of their basic pay while the company contributes 13.49% of the basic pay.

Salary and cash benefits for the year were as follows:

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
Short term benefits (salary and bonus)	255,574	172,051	237,155	154,783
Post-employment benefits (Employer pension contribution)	32,016	32,033	29,531	29,873
	<u>287,590</u>	<u>204,084</u>	<u>266,686</u>	<u>184,656</u>
Directors' remuneration	27,494	28,122	24,785	23,623

12. SHARE CAPITAL**Authorised**

280,000,000 (2013: 280,000,000) Ordinary shares of 5 tambala each 14,000 14,000

Issued and fully paid

261,582,580 (2013: 261,582,580) Ordinary shares of 5 tambala each 13,079 13,079

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

13. LOANS AND BORROWINGS

Current portion of long term borrowings	-	370,276	-	358,826
Amounts payable after one year	-	446,130	-	446,130
Total long term borrowings	<u>-</u>	<u>816,406</u>	<u>-</u>	<u>804,956</u>

The directors consider that the carrying amount of long-term borrowings approximates to their fair value as at the reporting date. Long-term borrowings are wholly repayable within seven years. However, the Board has undertaken to repay in full for a shorter period as shown in Note 13.1.

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
The loans and borrowings are further analysed as follows:				
SECURED LOANS				
Malawi Savings Bank	-	440,117	-	440,117
A Project Loan facility of MK450m was obtained in 2011 to be repaid in four years with one year moratorium from the date of full draw down charged at 2% below the bank base lending rate which is currently 37% per annum. The loan was fully repaid during the year.				
National Bank of Malawi Limited	-	229,079	-	229,079
A Project Finance loan facility amounting to MK840 million to finance refurbishment of all hotels as part of a refurbishment plan for Sunbird Properties to be repaid over a period of seven years with a one year capital repayment moratorium from the date of full draw down charged at the bank's base lending rate, which is currently 37% per annum. The loan was fully repaid during the year.				
National Bank of Malawi Limited	-	135,760	-	135,760
A Project Finance US\$ loan facility amounting to US\$2.5 million to finance refurbishment of all hotels as part of refurbishment plan for Sunbird Properties to be repaid over a period of five years charged at a flat rate of 8.5% per annum. The loan was fully repaid during the year.				
National Bank of Malawi Limited	-	11,450	-	-
An overdraft of MK25 million for Catering Solutions Limited was converted into a short term loan to be repaid over a period of one year charged at the bank's base lending rate which is currently at 37% per annum. The loan was fully repaid during the year.				
Total secured loans	-	816,406	-	804,956

The bank loans were secured over the company's land and buildings with a carrying amount of **MK12.5 billion** in 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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13.1 MOVEMENT IN LOANS AND BORROWINGS

	Short term loan	NBM MKW Re-furbishment	NBM USD Re-furbishment	NBM NKW medium term	Total loans and borrowings	Finance lease finance	Corporate bond	Total
CONSOLIDATED								
2014								
1 January	11,450	229,079	135,760	440,117	816,406	162,920	1,540,000	2,519,326
Foreign exchange loss	-	-	2,665	-	2,665	-	-	2,665
Proceeds from borrowings	-	-	-	-	-	231,669	1,390,000	1,621,669
Repayments	(11,450)	(229,079)	(138,425)	(440,117)	(819,071)	(176,138)	(690,000)	(1,685,209)
31 December	-	-	-	-	-	218,451	2,240,000	2,458,451
2013								
1 January	-	210,442	260,845	509,253	980,540	113,447	1,640,000	2,733,987
Foreign exchange loss	-	40,957	46,882	-	87,839	-	-	87,839
Proceeds from borrowings	25,000	-	-	-	25,000	142,527	-	167,527
Repayments	(13,550)	(22,320)	(171,967)	(69,136)	(276,973)	(93,054)	(100,000)	(470,027)
31 December	11,450	229,079	135,760	440,117	816,406	162,920	1,540,000	2,519,326
SEPARATE								
2014								
1 January		229,079	135,760	440,117	804,956	162,920	1,540,000	2,507,876
Foreign exchange loss		-	2,665	-	2,665	-	-	2,665
Proceeds from borrowings		-	-	-	-	231,669	1,390,000	1,621,669
Repayments		(229,079)	(138,425)	(440,117)	(807,621)	(176,138)	(690,000)	(1,673,759)
31 December		-	-	-	-	218,451	2,240,000	2,458,451
2013								
1 January		210,442	260,845	509,253	980,540	113,447	1,640,000	2,733,987
Foreign exchange loss		40,957	46,882	-	87,839	-	-	87,839
Proceeds from borrowings		-	-	-	-	142,527	-	142,527
Repayments		(22,320)	(171,967)	(69,136)	(263,423)	(93,054)	(100,000)	(456,477)
31 December		229,079	135,760	440,117	804,956	162,920	1,540,000	2,507,876

14. CORPORATE BONDS

	Currency	Year of Maturity	Carrying Amount	
			2014	2013
Old Mutual (Malawi) Limited	MK	2018	1,150,000	450,000
NICO Asset Managers Limited	MK	2018		-
CDH Asset Management Limited	MK	2016		690,000
CDH Investment Bank Limited	MK	2016		490,000
CDH Asset Management Limited	MK	2017		200,000
CDH Investment Bank Limited	MK	2016		-
				250,000
				150,000
TOTAL				2,240,000
				1,540,000
At 1 January				1,540,000
Repayments during the year				1,640,000
Derecognised during the year				(690,000)
				(100,000)
				-
				(400,000)
				850,000
Issued during the year				1,140,000
At 31 December				1,390,000
				400,000
				2,240,000
				1,540,000

In 2011, the company issued corporate bonds as a private placement. The notes were offered to investors on a floating rate basis, to be re-priced quarterly with interest rate at an arithmetic average of 182-day Treasury bill yield plus a variable margin averaging 6.54%. There is a maximum rate of interest of 4% below the simple average of reference banks commercial bank lending rates and a minimum rate of 10%.

During the year, further subscriptions were received from Old Mutual (MK700 million) and CDH (MK690 million). The proceeds were used to repay commercial bank loans and the NICO bond.

The bonds are secured over land and buildings of the company.

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15. OBLIGATIONS UNDER FINANCE LEASE

Consolidated and Separate

2014 2013

Standard Bank Limited

162,921 113,447

The Group has a finance lease facility of MK289 million from Standard Bank to cater for procurement of motor vehicles repayable over three to four years. The leased motor vehicles secure the lease obligations. As at 31 December 2014, the net carrying amount of leased motor vehicles was as follows:

	Future minimum lease payments 2014	Interest 2014	Present value of minimum lease payments 2014	Future minimum lease payments 2013	Interest 2013	Present value of minimum lease payments 2013
Less than one year	128,380	67,981	60,399	70,454	20,130	50,324
Between one and four years	201,462	43,410	158,052	157,636	45,039	112,597
	<u>329,842</u>	<u>111,391</u>	<u>218,451</u>	<u>228,090</u>	<u>65,169</u>	<u>162,921</u>

16. EMPLOYEE BENEFITS

16.1 Pension Plan

The Group operates a defined contribution pension plan for some of its employees. The plan is operated by Old Mutual Life Assurance Company (Malawi) Limited.

The total cost charged to profit or loss of MK264 million (2013: MK171 million) represents contributions payable to this plan by the Group at rates specified in the rules of the plan. The respective contribution rates for employees and the employer were 5% (2013: 5%) and 13.49% (2013: 14.11%), respectively.

16.2 Pension accrual

The Pension Act, 2010 requires a pension accrual to be recognised to the extent that the accumulated employer pension contributions plus any growth (bonus) thereon as at 1 June 2011 (on the individual account on the pension fund), or gratuity paid is less than the amount of severance entitlement at date of commencement of the two laws. The calculated excess of severance over individual pension benefits plus any growth as at 1 June 2011 resulted in the pension accrual as below:

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
Balance at 1 January	333,052	358,107	321,822	348,901
CPI Uplift for the year	45,446	101,942	42,919	99,918
Payments made during the year	(15,408)	(126,997)	(15,408)	(126,997)
Balance at 31 December	<u>363,090</u>	<u>333,052</u>	<u>349,333</u>	<u>321,822</u>

The severance calculated and transferred to pension has to be adjusted for inflation using the CPI (Consumer Price Index) for each year within eight years that it is not transferred to a pension fund.

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013

16.3 Short term employee benefits

Short term employee benefits	279,304	236,282	254,629	236,282
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Short term employee benefits relate to total performance bonus payable for the reporting period and annual leave pay provision. Performance bonus is payable in line with the Sunbird Bonus Policy upon approval by the Board. Based on the policy, the group has a constructive obligation to pay the amounts accrued.

17. DEFERRED TAX

At beginning of the year	2,884,772	2,833,902	2,847,639	2,828,813
Recognised in profit or loss:				
Deferred tax on accelerated capital allowances	71,001	9,615	70,224	10,703
Deferred tax on employment benefits and other timing differences	(51,512)	7,517	(50,754)	8,123
Recognised in other comprehensive income:				
Revaluation surplus	-	33,738	-	-
At end of the year	2,904,261	2,884,772	2,867,109	2,847,639

Analysed as:

Accelerated capital allowances	1,388,612	1,269,565	1,349,436	1,266,922
Revaluation of property	1,752,878	1,800,924	1,750,775	1,763,065
Deferred tax assets on employment benefits	(136,949)	(99,916)	(132,822)	(96,547)
Deferred tax on other timing differences	(100,280)	(85,801)	(100,280)	(85,801)
Net deferred tax	2,904,261	2,884,772	2,867,109	2,847,639

18. TRADE AND OTHER PAYABLES

Trade payables	724,685	656,819	705,539	625,211
Output VAT	125,850	141,549	120,644	137,293
Guest advance deposits	345,027	305,229	341,712	304,895
Accruals	632,415	546,010	616,730	521,182
	1,827,977	1,649,607	1,784,625	1,588,581

19. REVENUES

Rooms revenues	4,917,716	4,047,995	4,906,497	4,047,995
Catering revenue	5,041,062	4,146,508	4,378,897	3,591,911
Other revenue	397,730	304,107	367,738	281,145
Total	10,356,508	8,498,610	9,653,132	7,921,051

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	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
20. OTHER INCOME				
Profit/(Loss) on disposal of property, plant and equipment	1,680	(4,115)	1,751	(4,115)
Government Grants	16,065	16,065	16,065	16,065
Interest earned on Air Malawi debt	-	19,384	-	4,000
15% Commission on HotelStay membership	12,200	-	12,200	-
Administration fees from Umodzi Holdings Limited	29,585	-	29,585	-
Dividend received from Catering Solutions Limited	-	-	75,000	-
Other sundry receipts	22,528	15,698	22,455	15,280
Total	82,058	47,032	157,056	31,230

21. ADMINISTRATIVE AND OTHER EXPENSES

Administrative expenses	1,548,785	1,083,331	1,527,093	1,064,921
Depreciation	284,817	271,654	277,349	264,390
Energy and maintenance costs	1,107,135	889,276	1,075,688	864,885
Marketing expenses	234,648	177,925	222,670	171,089
Staff costs	2,918,318	2,319,875	2,733,236	2,149,962
Total	6,093,703	4,742,061	5,836,036	4,515,247

22. FINANCE EXPENSE

Finance leases	102,322	54,954	102,322	54,954
Bank overdraft interest	104,739	133,614	103,080	125,487
Interest on loans	677,499	801,141	677,107	797,270
	884,560	989,709	882,509	977,711
Net Foreign exchange losses	19,639	35,732	19,639	35,732
Total finance costs	904,199	1,025,441	902,148	1,013,443

RECONCILIATION OF INTEREST PAID

Interest charged to statement of profit or loss	884,560	989,709	882,509	977,711
Accrued interest	(9,046)	(6,987)	(9,046)	(6,987)
Interest paid	875,514	982,722	873,463	970,724

23. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting) the following:-

Auditors' remuneration: - current year	22,192	14,624	18,992	12,168
- mid - year review	3,949	3,327	3,277	2,125
Depreciation	284,817	271,654	277,349	264,390
Directors' remuneration	27,494	28,122	24,785	23,623
Dividends received	-	-	(75,000)	-
Deferred income	(16,065)	(16,065)	(16,065)	(16,065)
(Profit)/Loss on disposal of plant and equipment	(1,680)	4,115	(1,751)	4,115
Pension costs	264,475	171,236	250,634	165,909
Staff costs	2,918,318	2,319,875	2,733,236	2,149,962

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013

24.1 INCOME TAX

24.1 Income tax expense

Current income tax – current year	354,900	92,748	322,064	78,845
Deferred tax	19,489	17,132	19,470	18,826
Total current income tax expense	374,389	109,880	341,534	97,671
Reconciliation of effective tax rate				
Profit for the year	1,069,538	565,008	1,044,327	548,192

	CONSOLIDATED				SEPARATE			
	%	2014	%	2013	%	2014	%	2013
Tax at standard rate	30	320,861	30	169,502	30	313,298	30	164,458
Non-deductible and temporary differences	5	53,528	(11)	(59,622)	3	28,236	(12)	(66,787)
Effective rate of tax	35	374,389	19	109,880	33	341,534	18	97,671

24.2 Income tax payable or recoverable

Income tax balance at 1 January	(13,413)	34,867	(21,570)	27,794
Adjustment to prior year tax liability	1,334	-	-	-
Current year liability	(354,900)	(92,748)	(322,064)	(78,845)
Income tax paid	169,401	44,468	160,086	29,481
Income tax balance at 31 December	(197,578)	(13,413)	(183,548)	(21,570)
Disclosed under:				
Current assets	-	8,157	-	-
Current liabilities	(197,578)	(21,570)	(183,548)	(21,570)

25. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of **MK695 million** (2013: MK453 million) and the weighted average number of ordinary shares outstanding during the year of **261,582,580** (2013: 261,582,580) as below:

	2014	2013
Profit for the year (MK'000)	695,149	453,993
Weighted average number of shares ('000)	261,582	261,582
Earnings per share (tambala)	266	174

There were no potential ordinary shares in issue, therefore diluted earnings per share equates to basic earnings per share.

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	Note	CONSOLIDATED		SEPARATE	
		2014	2013	2014	2013

26. FINANCIAL INSTRUMENTS

26.1 Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Trade and other receivables	9	1,207,394	1,028,714	970,000	866,397
Amounts due from related parties	11	-	-	9,040	1,255
Cash and cash equivalents	10	269,814	101,455	269,422	101,455
		<u>1,477,208</u>	<u>1,029,729</u>	<u>1,248,462</u>	<u>969,107</u>

26.2 Receivables

The maximum exposure to credit risk for receivables by receivables category at the reporting date was:

Trade receivables		1,056,753	873,486	835,396	717,976
Other receivables		150,641	155,228	134,604	148,421
	9	<u>1,207,394</u>	<u>1,028,714</u>	<u>970,000</u>	<u>866,397</u>

The aging of trade receivables at the reporting date was:

	CONSOLIDATED		SEPARATE	
	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	478,095	-	391,683	-
Past due 31-60 days	214,717	-	190,007	-
Past due 61-90 days	107,660	-	143,304	-
Past due over 90 days	256,281	24,121	148,492	29,163
Total	<u>1,056,753</u>	<u>24,121</u>	<u>873,486</u>	<u>29,163</u>
	CONSOLIDATED		SEPARATE	
Not past due	404,544	-	342,089	-
Past due 31-60 days	181,080	-	120,785	-
Past due 61-90 days	52,070	-	89,699	-
Past due over 90 days	197,702	20,178	165,403	26,007
Total	<u>835,396</u>	<u>20,178</u>	<u>717,976</u>	<u>26,007</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
Balance as 1 January	29,163	32,841	26,007	28,885
Recognised in statement of profit or loss	12,155	-	11,368	-
Doubtful debts recovered during the year	(17,197)	(3,678)	(17,197)	(2,878)
Balance as at 31 December	<u>24,121</u>	<u>29,163</u>	<u>20,178</u>	<u>26,007</u>

The Impairment loss as at 31 December 2014 relates to specific customers that are in financial difficulties and hence may not be able to pay. No provision for impairment has been raised on certain past due trade receivables as management believe that they are collectible.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.3 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

CONSOLIDATED	Note	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-7 years
2014							
Non-derivative financial liabilities							
Corporate Bonds	14	2,240,000	(4,067,750)	(336,000)	(736,000)	(1,242,000)	(1,753,750)
Finance lease liabilities	15	218,451	(329,842)	(54,975)	(54,975)	(109,950)	(109,942)
Trade payables	18	724,685	(724,685)	(724,685)	-	-	-
Bank overdraft	10	156,985	(156,985)	(156,985)	-	-	-
		3,340,121	(5,279,262)	(1,272,645)	(790,975)	(1,351,950)	(1,863,692)

2013

Non-derivative financial liabilities

Secured bank loans	13	816,406	(1,646,602)	(205,964)	(205,964)	(411,928)	(822,746)
Corporate Bonds	14	1,540,000	(3,930,000)	(277,200)	(277,200)	(1,004,400)	(2,371,200)
Finance lease liabilities	15	162,921	(228,090)	(28,511)	(32,688)	(68,579)	(98,312)
Trade payables	18	656,819	(656,819)	(656,819)	-	-	-
Bank overdraft	10	305,398	(305,398)	(305,398)	-	-	-
		3,481,544	(6,766,909)	(1,473,892)	(515,852)	(1,484,907)	(3,292,258)

SEPARATE

2014

Non-derivative financial liabilities

Corporate Bonds	14	2,240,000	(4,067,750)	(336,000)	(736,000)	(1,242,000)	(1,753,750)
Finance lease liabilities	15	218,451	(329,842)	(54,975)	(54,975)	(109,950)	(109,942)
Trade payables	18	705,539	(705,539)	(705,539)	-	-	-
Bank overdraft	10	150,323	(150,323)	(150,323)	-	-	-
		3,314,313	(5,253,454)	(1,246,837)	(790,975)	(1,351,950)	(1,863,692)

2013

Non-derivative financial liabilities

Secured bank loans	13	804,956	(1,623,509)	(203,075)	(203,075)	(406,150)	(811,209)
Corporate Bonds	14	1,540,000	(3,930,000)	(277,200)	(277,200)	(1,004,400)	(2,371,200)
Finance lease liabilities	15	162,921	(228,090)	(28,511)	(32,688)	(68,579)	(98,312)
Trade payables	18	625,211	(625,211)	(625,211)	-	-	-
Amount due to related parties	11	89,420	(89,420)	(89,420)	-	-	-
Bank overdraft	10	304,426	(304,426)	(304,426)	-	-	-
		3,526,934	(6,800,656)	(1,527,843)	(512,963)	(1,479,129)	(3,280,721)

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26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 Market risk

26.4.1 Currency risk

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk is as follows:

	Consolidated and Separate							
	31 December 2014				31 December 2013			
	Malawi Kwacha equivalent of				Malawi Kwacha equivalent of			
	USD	ZAR	GBP	Euro	USD	ZAR	GBP	Euro
Secured bank loan	-	-	-	-	(135,761)	-	-	-
Cash and cash equivalents	158,457	3,404	4,053	1,462	136,669	9,555	8,153	1,985
Payables	(943)	(7,318)	-	-	-	-	-	-
	157,514	(3,914)	4,053	1,462	908	9,555	8,153	1,985

The following significant exchange rates applied during the year:

	REPORTING DATE			
	AVERAGE RATE		SPOT RATE	
	2014	2013	2014	2013
Kwacha/USD	454.97	385.56	475.82	434.12
Kwacha/Rand	40.56	41.06	41.02	40.10
Kwacha/GBP	726.70	637.78	738.44	714.96
Kwacha/Euro	582.84	526.96	575.45	590.23

Sensitivity analysis

The company's major foreign currency exposure is in the US Dollar.

A strengthening of the US Dollar, South African Rand and British Pound by 10 percent against the kwacha at 31st December would have increased exchange gain by **MK16 million** (2013: exchange gain of MK2 million) which would have been credited to profit and loss. The increase in equity would be **MK11 million** (2013: equity would have increased by MK1.4 million). This analysis is based on foreign exchange rate variations that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables in particular interest rates, remain constant.

26.4.2 Interest Rate Risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Variable rate Instruments	Note	CARRYING AMOUNTS			
		CONSOLIDATED		SEPARATE	
		2014	2013	2014	2013
Medium Term Bank loans	13	-	11,450	-	-
Project Finance Redevelopment Loan	13	-	816,406	-	804,956
Finance Lease	15	218,451	162,921	218,451	162,921
Corporate Bonds	14	2,240,000	1,540,000	2,240,000	1,540,000
Bank Overdraft	10	156,985	305,398	150,323	304,426
		2,615,436	2,836,175	2,608,774	2,812,303

The prevailing interest rates for these interest bearing facilities are within the region of base rate plus or minus 1-4%. The base rate for the Commercial banks is currently between 35% and 40%.

Cashflow sensitivity analysis for variable rate instruments

An increase of 5% in interest rates at the reporting date would have increased interest being charged to the profit or loss by **MK39 million** (2013: MK49 million). The decrease in equity would be **MK27 million** (2013: equity would have decreased by MK34 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

26.5 Fair value and risk management

Accounting classification and fair values

The following table shows the carrying amounts of and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy.

At the reporting date there were no financial assets and financial liabilities that were held for trading, designated at fair value, fair value – hedging instruments, held to maturity and available for sale.

CONSOLIDATED	Note	Loans and receivables	Other financial liabilities	Total
31 December 2014				
Financial assets not measured at fair value				
Trade and other receivables	9	1,297,994	-	1,297,994
Cash and cash equivalents	10	269,814	-	269,814
		1,567,808	-	1,567,808
Financial liabilities not measured at fair value				
Bank overdrafts	10	-	(156,985)	(156,985)
Trade and other payables	18	-	(1,827,977)	(1,827,977)
Corporate bonds	14	-	(2,240,000)	(2,240,000)
Obligation under finance lease	15	-	(218,451)	(218,451)
		-	(4,443,413)	(4,443,413)
31 December 2013				
Financial assets not measured at fair value				
Trade and other receivables	9	1,075,296	-	1,075,296
Cash and cash equivalents	10	101,455	-	101,455
		1,176,751	-	1,176,751
Financial liabilities not measured at fair value				
Bank overdrafts	10	-	(305,398)	(305,398)
Trade and other payables	18	-	(1,649,607)	(1,649,607)
Loans and borrowings	13	-	(816,406)	(816,406)
Corporate bonds	14	-	(1,540,000)	(1,540,000)
Obligation under finance lease	15	-	(162,921)	(162,921)
		-	(4,474,332)	(4,474,332)

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26. FINANCIAL INSTRUMENTS (CONTINUED)

26.5 Fair value and risk management (continued)

SEPARATE	Note	Loans and receivables	Other financial liabilities	Total
31 December 2014				
Financial assets not measured at fair value				
Trade and other receivables	9	1,051,720	-	1,051,720
Cash and cash equivalents	10	269,422	-	269,422
Amounts due from related companies	11	9,040	-	9,040
		1,330,182	-	1,330,182
Financial liabilities not measured at fair value				
Bank overdrafts	10	-	(150,323)	(150,323)
Trade and other payables	18	-	(1,784,625)	(1,784,625)
Corporate bonds	14	-	(2,240,000)	(2,240,000)
Obligation under finance lease	15	-	(218,451)	(218,451)
		-	(4,393,399)	(4,393,399)
31 December 2013				
Financial assets not measured at fair value				
Trade and other receivables	9	912,979	-	912,979
Cash and cash equivalents	10	101,455	-	101,455
Amounts due from related companies	11	1,255	-	1,255
		1,015,689	-	1,015,689
Financial liabilities not measured at fair value				
Bank overdrafts	10	-	(304,426)	(304,426)
Trade and other payables	18	-	(1,588,581)	(1,588,581)
Loans and borrowings	13	-	(816,406)	(816,406)
Corporate bonds	14	-	(1,540,000)	(1,540,000)
Obligation under finance lease	15	-	(162,921)	(162,921)
Amounts due to related parties	11	-	(89,420)	(89,420)
		-	(4,501,754)	(4,501,754)

27. SEGMENTAL REPORTING

Business segments

The Group has three reportable segments, segmented on type of products or services offered. The following summary describes operations of each reportable segment:

Reportable segment	Operations
Room income	Revenue from provision of accommodation to guests
Catering income	Revenue from sale of food and beverages to guests
Other income	Revenue from other services provided at the hotel to support rooms and catering segments

Information provided to the Group's Chief Operating Decision Maker is segmented in room income, catering income and other income.

	Room income	Catering income	Other services	Total
2014				
Total revenue	4,917,716	5,041,062	397,730	10,356,508
Segment contribution	4,651,025	3,076,030	258,327	7,985,382
Other hotel expenses				(5,846,288)
Corporate expenses				(165,357)
Finance costs				(904,199)
Profit before income tax				<u>1,069,538</u>
2013				
Total revenue	4,047,995	4,146,508	304,107	8,498,610
Segment contribution	3,325,185	2,902,556	57,737	6,285,478
Other hotel expenses				(4,622,634)
Corporate expenses				(72,395)
Finance costs				(1,025,441)
Profit before income tax				<u>565,008</u>

No discrete information about assets and liabilities relating to the segments is provided to the Group's Chief Operating Decision Maker.

Profile of the Target Market Segment

The target market segment of the Group is predominantly Commercial, Groups and Conferences, Corporate Organisations and Government Departments.

	Consolidated and Separate	
	2014	2013
	%	%
Corporate Organisations	40	33
Commercial, Groups and Conferences	25	25
Government Departments	7	10
Leisure packages and Airlines	9	6
Business Transient Non-negotiated	19	26
Total	<u>100</u>	<u>100</u>

Geographical Source of Business

The geographical source of business is predominantly domestic.

Malawi	72	72
Africa	14	13
Europe	7	7
Americas	5	5
Other	2	3
Total	<u>100</u>	<u>100</u>

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28. COMMITMENTS

	CONSOLIDATED		SEPARATE	
	2014	2013	2014	2013
Capital expenditure:				
Authorised but not contracted for	828,986	707,908	636,989	540,779

These commitments are to be financed from internal resources and existing facilities.

29. CONTINGENT LIABILITIES

Legal claims (a)	50,000	15,000	50,000	15,000
Guarantees in respects of staff and bank loans (b)	7,500	7,500	32,500	32,500
Total contingent liabilities	57,500	22,500	82,500	47,500

(a) These represent legal claims made against the company the outcome of which is uncertain. The amount disclosed represents a claim that a customer filed against the company's insurers. In the opinion of the directors the claim is not expected to give rise to a cost to the company.

(b) These represent the company's maximum exposure at the reporting date if guarantees entered into by the company in support of staff borrowings and Subsidiary Overdraft facility from financial institutions were called upon.

30. ECONOMIC FACTORS

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

	2014	2013
Kwacha/GBP	738.44	714.96
Kwacha/Rand	41.02	40.10
Kwacha/US Dollar	475.82	434.12
Kwacha/Euro	575.45	590.23
Inflation rate (%)	24.2	23.5

At the end of the year, the Reserve Bank base-lending rate was **25%** (2013: 25%). Commercial banks' base lending rates are 10% to 20% above the prevailing Reserve Bank of Malawi rate.

As at **27th March 2015** the above exchange rates had moved as follows:

Kwacha/GBP	636.16
Kwacha/US Dollar	437.21
Kwacha/Rand	36.54
Kwacha/Euro	474.29

31. SUBSEQUENT EVENTS

Subsequent to year end, no events have occurred necessitating adjustment or disclosure in these financial statements.